THE FEDERAL BULLDOZER

A CRITICAL ANALYSIS OF URBAN RENEWAL, 1949–1962

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A CRITICAL ANALYSIS OF URBAN RENEWAL, 1949–1962

MARTIN ANDERSON

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The Joint Center for Urban Studies, a cooperative venture of the Massachusetts Institute of Technology and Harvard University, was founded in 1959 to do research on urban and regional problems. Participants have included scholars from the fields of architecture, business, engineering, city planning, economics, history, law, philosophy, political science, and sociology. This book is one of a series in which the Joint Center presents some of its findings.

TO MY PARENTS

PREFACE

When this book was started in 1960 I had no interest in the federal urban renewal program itself; my objective then was to find out more about how private enterprise would be affected by the program — where the private financing would come from, what kind of private construction would be built, what procedures the private developer would follow, and what kind of profit potential existed. My initial research indicated that, according to estimates, $20 billion of private money would be invested in the federal urban renewal program, and I decided to find out how the federal urban renewal program was going to generate $20 billion of private investment.

It was not long before I got the first of a long series of surprises. I discovered that there was not much known about the federal urban renewal program, that government statistics did not support the optimistic reports of some journalists, and that the estimated $20 billion of private investment began to melt away as I began to examine the data. Soon I realized that I could not trust many of the assertions and statements on urban renewal, and that it would be necessary to develop the supporting data myself. At this time I decided to expand the scope of my study to include all the major operations of the urban renewal program. My initial results convinced me that the entire program was in need of a thorough analysis and evaluation.

Until now it has been especially difficult to evaluate the federal urban renewal program for the following reasons: (1) little aggregate data were available in meaningful forms; (2) the avail-

able data were incomplete; and (3) no one had attempted to consolidate analyses dealing with various parts of the program. This study is based on three major types of data — surveys of published material, personal interviews with knowledgeable persons, and unpublished government reports.

The published material on the federal urban renewal program, while scattered, is quite broad. Besides several books dealing with certain aspects of the program there are a wide variety of articles in professional journals, periodicals, magazines, and newspapers.

During the study I interviewed a number of people who are involved with one or more facets of the program. These included local, state, and federal government officials, private real estate developers, bankers, sociologists, economists, politicians, businessmen, people living in urban renewal areas, journalists, lawyers, and city planners. Their comments and suggestions were very helpful and generally confirmed the story told by the aggregate statistics.

In evaluating the desirability of the program from a national point of view, aggregate national data are absolutely essential. National data are also important to a single city or to a small community because they show the experience that the rest of the country has had with the program, and provide a broad background against which specific local urban renewal projects can be judged. The consequences of any large social and economic program administered by the federal government are admittedly difficult to trace. The method used in this study has been simply to assemble facts and estimates, as reported by the administrators of the program and others, and to weave them into a logical pattern. These facts tell a great deal.

The fundamental basis of the study is aggregate statistical data covering every urban renewal project in operation as of March 31, 1961. All relevant information was abstracted from publications of the Housing and Home Finance Agency and its constituent units for each urban renewal project. This information was supplemented with previously unpublished material abstracted from the official files of the Urban Renewal Adminis-

tration in Washington, D. C. This previously unpublished material deals primarily with the amount and type of new construction activity in urban renewal project areas.

The amount of data generated was great and without the aid of a high-speed computer I would probably still be processing it. The data were first coded and punched on over 10,000 IBM cards. These cards were processed on an IBM 1620 computer to develop new data, to correlate various parts of the data, to sort the data and rank them according to various parameters, and to produce a systematic record of the facts gathered. To my knowledge this is the first time that data dealing with many parts of the federal urban renewal program from many sources have been correlated and woven together into a reasonably complete picture.

It should be noted that the data in this study are not perfect; a significant part of the data — especially the new construction figures — are estimates, and therefore subject to a certain amount of error. Some areas of the study are supported with quite rough estimates, particularly the area of tax revenue changes. However, it should be kept in mind that, to my knowledge, this is the best and most accurate data available and that, within reasonable limits, the various parts of the analysis dovetail together neatly, support one another, and suggest that the estimates are very likely accurate enough for decision-making purposes.

Some of the data are a little out of date by now, but I have decided that it would be better in the long run to use the information I now have rather than to delay publication of this book for another 6 to 12 months in the hope of acquiring more up-to-date data. The program is growing swiftly and, in my judgment, it is unlikely that its basic nature will change significantly as its scope widens and its depth increases. I hope that the framework of analysis I have developed will be useful to others who wish to extend the analysis with more recent data, and to those who wish to apply it on a smaller scale to their own cities and communities, thus making it possible for those concerned to make better informed decisions about the desirability of a federally aided urban renewal program.

It should be noted that I am in agreement with those goals articulated by Congress in 1949 — a decent home and a suitable living environment for every American. However, several years of study have convinced me that the means employed by the federal urban renewal program will not achieve these goals as rapidly and effectively as the means employed by free enterprise — if at all. In my opinion the federal urban renewal program is very costly, destructive of personal liberty, and is not capable of achieving the goals put forth by Congress.

This does not mean that I am against the concept of "city planning." Although few will ever plan a city, city planners can play an important consultative role in the layout and efficient design of areas of the city. They should perform the same role for developers engaged in laying out large areas of land that the architect performs for a person building a home. The architect should be expert in the design of the building and its immediate surroundings; the city planner should be expert in the design of the environment in which the buildings will go.

Over a year was spent in having the manuscript reviewed by various experts connected with the federal urban renewal program. The manuscript was read by a number of professors from Harvard University, M.I.T., Columbia University, and the University of Pennsylvania. I discussed the facts and my conclusions with people actually running the program, including the Commissioner of the Urban Renewal Administration, William L. Slayton. These people generally agreed with my facts and my reasoning, but they did not always agree with my conclusions.

In general they regarded the analysis as unbalanced — all con and no pro. Although agreeing with the facts and reasons presented, they insisted there must be more; "After all," some of them said, "urban renewal is both good and necessary." My only answer was, "All right, it is an unbalanced account in the sense that the bulk of the evidence indicates that urban renewal is undesirable. But what haven't I considered? What have I left out that is important?" From the wide array of answers I received to this question one reply stands out in my mind, "How should I know. You're the expert. You're the one who made the study."

In fact this book is an unbalanced account in that most of the evidence presented is not favorable to the federal urban renewal program. In my judgment this is the only way that it could be, simply because there is no other alternative.

The major part of this study was completed while I was a Research Fellow at the Joint Center for Urban Studies of M.I.T. and Harvard. However, the opinions expressed and positions taken are not necessarily those held by the Joint Center for Urban Studies or any branch of the United States Government. I am solely responsible for this study — its hypotheses, its facts, its estimates, its opinions, and its conclusions.

MARTIN ANDERSON

New York City
August 5, 1964

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THE FEDERAL BULLDOZER

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CHAPTER ONE

INTRODUCTION: RENEWAL BY GOVERNMENT DECREE

Many are stubborn in pursuit of the path they have chosen, few in pursuit of the goal.

Nietzsche

During the last 15 years, notices similar to the following one have been received by hundreds of thousands of families and individuals living in cities throughout the United States.

> The building in which you now live is located in an area which has been taken by the Boston Redevelopment Authority according to law as part of the Government Center Project. The buildings will be demolished after the families have been relocated and the land will be sold to developers for public and commercial uses, according to the Land Assembly and Redevelopment Plan presently being prepared.[1]

The wording varies from city to city, but the meaning is clear: the house or apartment you live in is going to be taken by the government and destroyed. The government will then sell the cleared land to someone else for private development. Please move. This extraordinary action is just one of many evolving from a federal program whose scope has increased rapidly in recent years. This is the federal urban renewal program —

damned by some, praised by many, and understood by very few.

The federal urban renewal program was enacted by Congress in 1949. Today, 15 years later, hundreds of cities, millions of people, and billions of dollars are involved in this complex process. Government leaders praise the program, the news media avidly report its bold plans and sporadic accomplishments, and many people in the United States presumably conclude that urban renewal is good and desirable. However, there are clear indications that the program is not fulfilling the goals set forth by Congress; after more than a decade of experience, urban renewal has not yet produced significant benefits.

The federal urban renewal program attempts to rebuild run-down areas of cities by feeding large subsidies of public money and government power into the normal operations of the private market. Very briefly, this is how the program works: After the urban renewal area is selected, plans are drawn up and approved by the local renewal agency, the local governing body, and the federal authorities in Washington. A public hearing is held at which local renewal officials document their case for urban renewal and other persons interested in this particular project have an opportunity to speak for or against it. Once the project has been officially approved the authorities either persuade the owners of real estate in the area to sell willingly or force them to sell by invoking the power of eminent domain. The law of eminent domain gives the state the power to appropriate private property for public use without the consent of the owner. Compensation must be given.

Once the city has acquired title to the property the process of urban renewal begins — the people living in the urban renewal area are either forced to move or to rehabilitate their homes, buildings are destroyed, the rubble is cleared away, new streets and lights and other public facilities are installed, the cleared and improved land is sold to a private developer by either direct negotiation with city officials or by competitive bidding, and finally, new buildings, of a type and design agreeable to the city officials, are erected by the new owners. The land is usually sold to the private developers for about 30 per cent what it cost the

city to acquire, clear, and improve it. Two thirds of the city's loss is made up by a direct cash subsidy from the federal government. Most of the money and guidance comes from Washington; the actual execution of the project is left primarily in the hands of the local city officials.

The federal urban renewal program allows those in control of the operation of the program to change one kind of neighborhood into another kind by destroying the old buildings and replacing them with new ones. Naturally the new uses they choose for the cleared land — perhaps high-rent apartments instead of low-rent apartments, for example — are those they feel are desirable, from their viewpoint of what the public good is.

The scope of the federal urban renewal program has increased swiftly, especially in recent years. During the early part of the program few people were concerned with it because not many people or cities were affected. This is no longer true. Today the federal urban renewal program is a firmly entrenched giant, reaching into virtually every important city in the United States.

> Urban Renewal Administration Commissioner William L. Slayton estimates that 'by June, 1964, the program will include 1,560 projects in 750 cities.' . . . In a recent speech, Slayton stated, 'during the past two years, we [the Urban Renewal Administration] have approved 432 projects, equal to half the number approved for the entire period 1940–60.'[2]

The federal urban renewal program was begun by people who were concerned with the physical condition of housing, especially in cities. This is not a new concern and has probably been expressed by some people ever since cities first came into existence. In general, these people do not believe that private enterprise, operating without substantial help and direction from the government, can achieve the housing quality that they deem desirable within a span of time they feel is short enough.

In 1949 the efforts of these people were rewarded when Congress, in effect, decided that the forces of private enterprise were not working effectively in the housing field, and that it was necessary for the federal government to step in and help the process along. To do this Congress established the federal urban

renewal program in the Housing Act of 1949. The primary objectives of this program were to:

1. Eliminate substandard and other inadequate housing through clearance of slums and blighted areas.
2. Stimulate housing production and community development sufficient to remedy the housing shortage.
3. Realize the goal of a decent home and a suitable living environment for every American family.

There are two underlying premises implicit in this statement of goals by Congress. The first is that there is a large amount of inadequate housing that should be eliminated by destruction or "rehabilitation" of slums. The second is that there is a housing shortage which can be remedied only by government stimulation of housing production and community development. In other words, Congress was saying we do not have enough housing and much of what we do have is inadequate. Their answer is to destroy or rehabilitate the inadequate housing and stimulate private enterprise to build enough new housing to make up the original housing gap plus the increase in the gap caused by the destruction of the inadequate housing. But what do they mean when they say there is a housing shortage and that some housing is inadequate? In its most literal sense a housing shortage means that the demand for houses and apartments exceeds the physical supply. In its more commonly accepted use it simply means that people cannot get the kind of homes that they desire at prices they are willing or can afford to pay. It is essential that we distinguish between these two circumstances: the first can be alleviated, the second cannot. Inadequate housing is low-quality housing that people live in either because they cannot afford better housing or because they would rather pay only a small percentage of their income for housing and spend the rest on other things.

There are few who would argue with the goals of the program. The elimination of slums, better homes, improved neighborhoods — all of these are desirable. However, there is considerable disagreement about the means that should be used to accomplish

these ends. First, there is the important question of whether the federal urban renewal program is right in principle. Should government officials use taxpayers' money and the power of eminent domain to scatter residents of run-down areas of cities, demolish the buildings they once lived in, and then guide the reconstruction according to aesthetic, social, and economic standards which they feel to be more suitable? Should the individual property rights of some people be sacrificed so that their land can be appropriated and sold by the government to other private individuals who will put it to a "higher and better" use? In 1949 these questions were answered essentially in the affirmative by Congress, and the federal urban renewal program was put into practice.

Since then two quite different means of accomplishing the goals set forth by Congress have been employed in grappling with the problems of housing and cities. One of these is private enterprise, guided by the complex interplay of the market place. The other is the federal urban renewal program, guided by over-all plans prepared by housing and city planning experts and approved by politicians. The purpose of this book is to examine closely how well the federal urban renewal program has worked and to compare its results with those recorded by private enterprise.

We shall be particularly interested in what each of these two forces accomplished and the way in which they accomplished it. Fundamentally, private enterprise relies on voluntary trades in the market place, and thus can reflect the diverse desires of millions of individuals. Government planning relies primarily on the use of public authority and public subsidy and reflects the desires of planners and public officials. We shall examine and compare the relative results and the relative consequences of each method.

It is impossible to judge the desirability of a national urban renewal program until it is reasonably clear what its major results are and how much it has cost to achieve these results. Sufficient time has elapsed for these major trends to become reasonably clear. It is now possible to answer questions like

these: What are the costs of the program in terms of money, loss of freedom, time, and energy? What are the results? Did the program alleviate or aggravate the original problem? What have private market forces been accomplishing?

It is important to have a clear understanding of what has been happening to the quality of housing in the United States, because this lies at the very heart of the program. It is commonly assumed that the quality of housing in the United States has been getting progressively worse over the years. Even professionals in the urban field imply that housing quality has deteriorated badly during the decade from 1950 to 1960, especially in the major cities. For example, Walter H. Blucher, in the preface to a book on redevelopment published in 1960, stated:

> The slums and blighted areas of America are growing faster than they are being destroyed, and nobody seems seriously distressed about this fact.[3]

This is not true. By any objective, consistent measure the decade from 1950 to 1960 witnessed what was probably the greatest improvement in over-all housing quality ever shown in the United States, especially in the cities. We shall see, as we examine the issues more thoroughly later in the book, that the basic facts of housing quality — one of the important premises on which the program was built — have changed quite drastically during the period the program was in effect. The housing problems, which the program set out to solve, have been already substantially reduced. This has been accomplished primarily by private market forces operating independently of the federal urban renewal program.

Perhaps the most widespread belief about the federal urban renewal program is that it has made and is making a significant contribution toward solving the housing problems of low-income and middle-income groups. This belief is false; accepting it gives the program a false rationale for continuing and expanding. In fact, the federal urban renewal program has actually made it *more* difficult for low-income and middle-income groups to obtain housing. It has done this by destroying much more of this

kind of housing than it has created. Its net result has been to aggravate the housing shortage for those who have the most trouble finding suitable accommodations.

In line with the belief that urban renewal has alleviated the housing problem is the belief that the federal urban renewal program is essentially another kind of public housing for low-income families. This is not true; only a very small fraction of the total construction in urban renewal areas is devoted to public housing. Most of the new buildings constructed in urban renewal areas are high-rise apartment buildings for high-income families. The public housing program is separate from the urban renewal program, and, if we were to compare these two federal programs, we would see that they have different goals, they have different degrees of power, and they are run by two completely separate government agencies. We shall be concerned primarily with the operations of the federal urban renewal program, and only incidentally with the way in which public housing fits into this program.

The public often takes it for granted that the people who are forced to move from their homes are well taken care of by the government authorities. It is commonly believed that these people move into better housing in better neighborhoods, and, by implication, are glad that they were forced to "better" themselves. On the contrary, a few private authorities have seriously questioned these conclusions, and they suggest that many of the families forcibly evicted drift into housing as bad as or worse than their original homes in neighborhoods that are also as bad or worse than their original neighborhoods. In addition they often have to pay higher rents. The factual evidence that would answer this question clearly is inconclusive at this time. Government statistics show a more optimistic picture than do private studies. But, although the question cannot be answered definitely, we shall see that there are certain indications which tend to support the gloomier view.

The federal urban renewal program also has some strong racial overtones. Approximately two thirds of the people who are forced out of their homes are Negroes, Puerto Ricans, or members

of some other minority group. The problem of finding new homes is complicated for these people because of racial discrimination. The federal urban renewal program is sometimes privately referred to as the "Negro removal" program. The problems of finding new places to live are further complicated by the fact that most of the people who are forced to move have relatively low incomes, which limit them to a small number of homes and apartments in low-rent areas. Most of the people who are seriously affected by the program come from low-income, minority groups that, for various reasons, do not or cannot attempt to correct the injustices to which they are subjected.

By March of 1963 over 609,000 people had been forced to pack their belongings and leave their homes. There were some cases of intensive resistance, which often stopped the urban renewal program in a particular area, but many people appear to have reacted to their eviction notices without much outward indication of their indignation; in fact, many of them have appeared to welcome the program enthusiastically. It is doubtful that this combination of apathy and enthusiasm will long continue in the future. The amount of active resistance seems to be related to the level of ability, education, and income of the people who have to move. People with the knowledge to comprehend the full implications of what is happening and the ability and money to fight it, often resist bitterly.

The number of people urban renewal has affected so far has been relatively small compared to the entire population of the country, but in absolute numbers it is very large. If the program continues to expand, it will not be long before the number of people affected reaches into the millions. In sheer numbers alone this is a very big program; in terms of what it does to this large number of people this is a very important program with serious consequences.

The basic premise on which the program was started and the one which maintains its intellectual momentum is that urban renewal eliminates slums, prevents the spread of blight, and revitalizes cities. It is much more likely that the federal urban renewal program shifts slums instead of removing them, and, in

* SHIFT SLUMS

so doing, may actually encourage the spread of slums and blight. The people who move from the urban renewal area are not really helped by the operation of the program. Some receive payments for moving expenses and advice in finding new homes. But after they move, they still have the same incomes, the same social characteristics, and the same skin color. The only basic change is that they are now living in some other part of the city.

An urban renewal project is typically a very long-drawn-out affair, and is usually characterized by a series of frustrating, time-consuming delays. It is very likely that ten or more years will elapse between the time the newspapers announce the plans of the bold new venture and the time when the last brick is laid on the last new building. This long time lag has serious consequences because of the way in which the character of cities change independent of the urban renewal program. The often dubious reasons for starting an urban renewal program may be even more dubious by the time the program drags itself to completion.

One of the most effective arguments in persuading city politicians to initiate urban renewal programs has been the promise of increased tax revenues. Caught between a desire to spend the taxpayers' money and a reluctance to tax him, many city politicians have seized on the prospect of increasing tax revenues through urban renewal. At first glance this appears to be reasonable; new buildings should yield more tax revenues than old buildings. However this may not be the case. It is possible (no one knows for certain) that the federal urban renewal program has actually caused a decrease in the tax revenues of most cities which have urban renewal projects. The indications are that the chances of urban renewal ever increasing over-all tax revenues in the United States are small, and if they do increase, it is likely that the net increase will be slight.

One of the reasons for this is that many of the new buildings (estimates of some experts range from 50 to 75 per cent) constructed on urban renewal sites would have been built elsewhere in the city, even if the federal urban renewal program had not existed. Often people are inclined to believe that just the op-

posite is true; that if it had not been for the federal urban renewal program, these buildings would not have been built within the city.

A similar argument which is sometimes advanced by the proponents of the program is that urban renewal plays an important role in the economy of the United States, and especially so in the economy of cities. Actually the federal urban renewal program plays a very insignificant role in the over-all economy of the United States. During the decade from 1950 to 1960 it accounted for less than two-tenths of one per cent of all construction activity. Although its role in the economy of cities is slightly greater, it is still relatively insignificant — here it has accounted for approximately 1.3 per cent of construction activity.

The federal urban renewal program is also often extolled as an alternative to which the government can direct the productive resources of the economy if our defense budget were cut drastically. The question of what would happen to the economy in case of general disarmament is a complicated one, but it is doubtful that urban renewal would be of much help. In order to follow the recommended course of action of directing resources into urban renewal it would be necessary to accept two concepts:

1. The government should attempt to redirect the resources of one massive private industry into a completely different type of industry under a different system of controls.
2. By some means the technology, capital, and brains that produce our Polaris submarines and atom bombs could be used to build houses and apartment buildings and engage in other construction activities.

The plans proposed so far are based more on wishful thinking than on rational analysis.

Who pays for urban renewal? According to government pronouncements most of the money used for urban renewal comes from private sources. It has been proudly announced that for every dollar invested by the government, about four dollars is

invested by private enterprise.[4] A close examination shows this claim to be largely untrue so far. A large part of the money has come from the government, either in the form of gifts or loans. The figures analyzed in this study indicate that for every dollar contributed by the government in the form of outright grants or long-term loans, private lenders and investors invest about one dollar, not four dollars.

The whole issue of financing is often clouded and confused because most of the new construction on urban renewal sites is privately owned. It is often implied that the construction is also privately financed. In many cases this is not true. Approximately 35 per cent of the privately owned construction in urban renewal areas is financed by the federal government through one of its agencies, the Federal National Mortgage Association. In essence, the taxpayers' money is being used to finance a great deal of the privately owned construction. Because of this, a large part of the total amount of money used actually comes from government sources, not private ones.

An interesting point to note here is that one would probably expect that the private developers operating in urban renewal areas would be making handsome profits. After all, the government acquires large blocks of city land for them, sells it to them at a reduced price, and then provides them with long-term financing for the new construction. But such is not the case. Surprisingly, few large private developers have made any profits at all, and many of the first ones to attempt to take advantage of the program have since been discouraged and have left long ago. We shall discuss some of the reasons for this in more detail later.

As the urban renewal program progressed, it soon became evident that it was not working out in quite the way that was anticipated. The destruction of large areas of run-down parts of cities and the forcible displacement of the people living in them to make room for the construction of new high-rental apartment houses began to bother some people. Partly because of this a push for a rehabilitation program developed. Rehabilitation, in

theory, is supposed to repair homes and neighborhoods so that they are nicer places to live in. Many felt that rehabilitation would be superior to redevelopment. They believed that people would not be forced from their homes, that it would not cost as much, and that it would be relatively easy to accomplish. Unfortunately they were and are wrong. As the rehabilitation program expanded (incidentally the redevelopment phase was also expanded greatly during the same time), it soon became apparent that rehabilitation had most of the same consequences as redevelopment. People were forced to move from their homes either because they could not afford to fix them up or because they did not want to fix them up. Relatively large sums of public subsidy are necessary, and the administration of the program has proved to be very complex and time-consuming. It seems doubtful that any significant progress will be made in this area.

In spite of what has actually been happening in the federal urban renewal program, its acceptance, except for a few instances, has been generally widespread. Since 1949, the program has grown rapidly.

Government leaders praise the program. President Kennedy opened his housing message to Congress (March 1961) by stating, "Our communities are what we make them. We as a Nation have before us the opportunity — and the responsibility — to remold our cities, to improve our patterns of community development, and to provide for the housing needs of all segments of our population." In our major cities there is frequent mention of urban renewal activities. Headlines proclaim: "Urban Renewal Only Way to Slow Decline of Cities," "The Busy Bulldozers," "Fighting Blight," "Council Criticizes, Passes Blight Plan," "Your Rights in Face of Urban Renewers," "Your Home Taken — How it Works," "City Eyes Huge Urban Bonanza."

Although there has been some substantial opposition to the urban renewal program, many politicians have pushed it as one of their major campaign planks. The reason for this probably lies in the fact that relatively few individuals are completely aware of the consequences of urban renewal, and think only of the

contrast between the existing drab slums and the bright new buildings that may replace them. It appears that this widespread lack of knowledge of what the program does and the apathy toward it has been interpreted as widespread acceptance. Believing this, the politicians appear to have been quick to assent to arguments favoring urban renewal from the special groups that may benefit from it. How long this will continue depends upon the course the program takes in the future and how aware people become of the relative costs and accomplishments of the program.

The constitutionality of federal urban renewal was contested vigorously in the courts for years, primarily on the ground that it violated private property rights. However, in 1954 it was declared constitutional by the Supreme Court. In effect the Court stated that the concept of eminent domain — previously used only to acquire private property for *public use* — now could be employed in the federal urban renewal program to acquire private property from some individuals and then have this property sold by the government to other individuals for their *private use.*

This decision may have more serious results than many Americans realize, because it has significantly altered the traditional concept of private property rights in the United States. Private property may now be seized by the government and turned over to someone else for his private use; under the traditional concept of eminent domain, private property could only be seized by the government for public use. In both cases monetary compensation is given. In a later chapter we shall examine in some detail the chain of events which led to the Supreme Court decision in 1954.

On the surface the potential benefits (largely new buildings) that could result from a well-executed urban renewal program would appear to be substantial. But it must be kept clearly in mind that these benefits are potential benefits, and that their achievement will entail some very real costs. The federal urban renewal program must be judged on what it actually accomplishes and how much it costs; it must not be judged on its professed goals. The proponents of urban renewal have concerned themselves mainly with the possible benefits of urban renewal,

and have largely ignored the costs and consequences of achieving these benefits. These costs and consequences are too great to ignore.

Chapter One Notes

[1] First paragraph of an informational statement dated October 25, 1961, that was sent to people living in an area of Boston, Massachusetts, slated for renewal.

[2] *Business Week*, December 7, 1963, p. 64.

[3] Dyckman, John W., and Isaacs, Reginald R., *Capital Requirements for Urban Development and Renewal*, New York, McGraw-Hill Book Co. Inc., 1961, p. xix.

[4] Before the Subcommittee on Housing of the Committee on Banking and Currency in the House of Representatives on November 21, 1963, William L. Slayton, Commissioner of the Urban Renewal Administration revised this estimate upward. He stated that, as of June 30, 1963, nearly $6 of private funds are invested for each $1 of Federal capital grant.

CHAPTER TWO

HOW THE PROGRAM WORKS

All the cities of the earth should rise up
Against the man who ruins one.

Landor

The structure and form of any city in the United States is literally the result of billions of decisions taken by hundreds of thousands or millions of separate individuals over a long period of time. Some of these decisions were reached almost instantaneously; some required months and even years of research, thought, and planning. Just the consideration of the number of people involved, the number of decisions taken, and the amount of time devoted toward making them should give one a solid respect for the process that created our cities.

In its most general sense the federal urban renewal program is attempting to rebuild and recreate cities — although it so far has confined itself to very tiny areas. When one considers the number of men and the number of decisions they must make to create a city, and then compares this to the size of the staff of the Urban Renewal Administration in Washington and the staffs of the local renewal agencies throughout the country, it is necessary to conclude that the scope of their activities must be limited. But although they are limited in relationship to the totality of the task, their activities and scope of control are nonetheless quite wide and complex. The urban renewal manual,

which lays down policies and requirements for local renewal agencies, is one indicator of how complicated the whole program is. As of April 20, 1962, the manual was contained in 3 separate loose-leaf binders, had 25 major sections and 82 chapters. The index alone was 26 pages long.[1]

It would not be practical or interesting to attempt to explain the detailed workings of the program. Suffice it to say that the details are very numerous and complicated. However, it is necessary that we have a clear idea of the basic form the program takes, and this chapter is devoted to explaining its main operations.

When urban renewal was first enacted into law in 1949, Congress established two major guidelines for the program:

1. Maximum reliance was to be placed on private enterprise.
2. Local governments were to have responsibility for initiating and carrying out specific urban renewal projects.

Although the role of the federal government in this process is a little vague, it appears that it is primarily one of providing advice, guidance, and the necessary money. Let us see how this process works.

To start the urban renewal process, it is first necessary to generate enough local interest in the program to cause the creation of a local renewal agency. A local renewal agency may be a specially created redevelopment agency, an authority responsible for public housing, or a city or county itself. It is the responsibility of this agency to develop a broad, general outline of what urban renewal may be expected to accomplish in the community.

The execution of a specific project begins with an application to the federal government for a planning advance, which is a temporary federal loan used to finance initial surveys and planning. In some cases funds may be advanced to the local renewal agency earlier in order to study the feasibility of the project. Feasibility surveys will be authorized only when there are special problems which need to be studied before it can be decided whether a contemplated urban renewal project can reasonably be expected to be carried out to a successful conclusion. The

local renewal agency usually discusses the need for such a survey with the local Regional Office of the Urban Renewal Administration before submitting an application.

If the project appears to be feasible, an application is then made for a planning advance. These temporary loans for surveys and planning must be repaid with interest out of the first federal or nonfederal funds that become available for undertaking the project.

Once the urban renewal plan is complete, the local renewal agency applies for a *federal temporary loan* to finance the project during its execution, and for a *federal grant* that will be used to defray a large part of the costs incurred by the local renewal agency. If the Urban Renewal Administration finds that all its requirements for a workable program have been met, it authorizes a contract between the local renewal agency and the federal government.

Before a community can legally become eligible for federal loans and grants, it is necessary for them to have a so-called *workable program.*

The workable program is a blueprint for coordinated action in which a community examines its total problems of slums and blight, evaluates what has been done to meet these problems, determines what must still be done, and works out a program and a schedule for doing it. The seven elements of the program are

1. Codes and Ordinances: establishing adequate standards of health and safety under which dwellings may be lawfully constructed and occupied.
2. Comprehensive Community Plan: providing a framework for improvement, renewal, and blight prevention to foster sound commuity development in the future.
3. Neighborhood Analyses: developing a community-wide picture of blight — where it is, how intense it is, and what needs to be done about it.
4. Administrative Organization: establishing clear-cut authority and responsibility to coordinate the over-all program

through effective administration of planning measures and other activities.

5. Financing: providing funds for staff and technical assistance needed, for public improvements and renewal activities essential to the program.

6. Housing for Displaced Families: determining community-wide the relocation needs of families to be displaced; developing housing resources to meet these needs, and providing relocation service to displaced families.

7. Citizen Participation: assuring that the community as a whole, representative organizations, and neighborhood groups are informed and have full opportunity to take part in developing and carrying out the program.

Before a project may be approved for execution, there must be a public hearing, and the local governing body must officially adopt the urban renewal plan, find that it conforms to the general plan for the locality as a whole, and determine that the proposed relocation of families to be displaced is feasible.

The actual execution of an urban renewal project begins after the plans have been approved by the proper authorities. During the execution of a project many activities are carried on simultaneously, and the way in which they overlap varies from project to project. However, it is possible to break the operations of a project down into six major steps. The steps usually follow one another in fairly definite order, although it is possible for several, or even all of them, to be taking place at the same time within one designated urban renewal area. These are the major stages of execution in the order in which they usually occur:

1. *Land Acquisition.* The first step usually involves the acquisition of the land and old buildings in the area of the city designated for urban renewal. This real estate is normally acquired through negotiation with the owners, but if this fails the local renewal agency may use the power of eminent domain to force any recalcitrant owners to sell. The purchase price is determined by independent appraisers.

2. *Relocation.* As the buildings are acquired, the local renewal

agency forces the families, individuals, and businesses located in the area to move and find new homes and places of business elsewhere. The law requires the agency to relocate them satisfactorily.

3. *Site Clearance.* As soon as possible, the buildings that the officials of the local renewal agency do not consider useful are demolished.

4. *Site Improvements and Supporting Facilities.* After the land has been cleared, the local renewal agency usually improves the land so that it will be attractive to a private developer. Site improvements include the construction of necessary public facilities, such as streets, sewers, water mains, and lighting systems. "Supporting facilities" is a term used to describe new public construction such as schools, libraries, parks, and other public buildings.

5. *Disposition of Improved Land.* The cleared and improved land may be disposed of by the local renewal agency in four different ways. It can be sold, leased, donated, or retained. In most cases the land is sold by either public bidding or by negotiation between the local renewal agency and the prospective buyer.

6. *New Construction.* This is the last step of the urban renewal process. If the land is disposed of to a private redeveloper, the redeveloper is usually obligated to build according to a general plan that has been approved by the local renewal agency. The new construction may be residential, commercial, industrial, or public (in the case where the land is either retained by the local renewal agency or sold to some other government agency).

The Federal Cost and Financing of an Average Project

Now let us examine the relative costs of the various parts of an average urban renewal project and how they are financed. Gross project cost is a term used to express all the expenses of an urban renewal project that are incurred by the local renewal agency. Gross project cost includes the purchase of the land and

buildings within the urban renewal area, the cost of planning, overhead, interest, and relocation costs, and the cost of site improvements and supporting facilities.

There appears to be a widespread impression that the value of real estate in relatively run-down urban areas is very low and that it costs the local urban renewal agency little to acquire it. This is not true; the old buildings and the land purchased by the urban renewal agency usually have considerable value. The greatest part of the public expense of urban renewal is directly attributable to the purchase and demolition of existing real estate.

The purchase of old buildings and land in urban renewal areas has accounted for, on the average, 67 per cent of the estimated total gross project cost. Site improvements and public facilities on the urban renewal sites together make up over 19 per cent of the estimated gross cost. Site improvements cover the installation of public improvements that are necessary to carry out the urban renewal plan: streets, parks, lighting, grading, and flood protection. Public facilities include schools, police or fire stations, libraries, water, electric and gas distribution facilities, sewers, and public parking lots. The rest of gross project cost is made up of relatively minor expenses such as planning, overhead, interest, and relocation costs. All together these account for about 13 per cent of the total gross project cost.[2]

Clearly, the greatest part of the expense of urban renewal comes from buying the old buildings and land on the urban renewal site and improving the cleared land for resale. All together these expenses accounted for roughly 86 per cent of the total gross project cost. A detailed breakdown of the costs of the average urban renewal project is given in Table 2.1.

Note that in spite of the verbal emphasis given to rehabilitation since 1954, less than two tenths of one per cent of the gross project cost of urban renewal at the end of 1962 was for rehabilitation. The federal urban renewal program is, for all practical purposes, a clearance program.

Net project cost is derived by deducting from the gross project cost the amount of money the local renewal agency receives from the sale of the improved land. If gross project cost includes

planning, administrative, and local overhead costs, the federal government will pay up to two thirds of the net project cost. If the local renewal agency chooses to pay for planning, administrative, and local overhead costs, these costs are not included in gross project cost, and the federal government will pay up to three fourths of net project cost. The difference between the

TABLE 2.1

BREAKDOWN OF GROSS PROJECT COST OF FEDERALLY AIDED URBAN RENEWAL PROGRAMS AS OF DECEMBER 31, 1962

	Amount (millions of dollars)	*Per Cent*
Gross Project Cost	$2,966	100.0%
Real Estate Purchases*	1,981	66.8
Site Improvements	304	10.3
Supporting Facilities	275	9.2
Interest	110	3.7
Site Clearance	83	2.8
Administration and Overhead	79	2.7
Survey and Planning	49	1.7
Other and Miscellaneous	48	1.6
Relocation	16	0.5
Inspection	16	0.5
Rehabilitation	5	0.2

* Includes land acquisition expense, property management, land disposition and land donation.

SOURCE: Urban Renewal Project Characteristics, Urban Renewal Administration, Washington 25, D. C., 555 projects authorized on 2/3 capital grant basis, December 31, 1962, Table 8, p. 16.

cost to prepare the land and what the local renewal agency receives for the land is called the "write-down." Write-down as a percentage of the gross project cost is called "per-cent write-down."

For 555 projects approved under the two-thirds formula at the end of 1962, the average write-down was approximately 70 per cent (see Table A.1 in Appendix A). This means that private developers are getting improved areas of city land for roughly 30 per cent of what it would have cost them to acquire the land

without government help. In fact, the effective percentage is probably lower than this because the government pays a price established by an independent appraiser, not the owner of the real estate. If a private developer attempted to secure a comparable area of land, he would probably have to pay a much higher total price. This would happen as soon as some of the individual owners realized that their small piece of land occupied a strategic position in the over-all development plan of the private developer. It should be noted here that the write-down for individual projects varies from zero to 100 per cent, with approximately two thirds falling between 60 and 90 per cent. Now let us take a look at some of the reasons why this land write-down has appeared to be necessary.

Erecting a new building in a densely populated city is usually more costly than erecting it in a more open area. This is especially true if the chosen site is already occupied by another building. If the site is already occupied, two additional costs are incurred. The first of these is the cost of demolition; the second cost is a loss in previous income. The old building has a market value that is determined largely by the amount of net income it can produce. When the building is destroyed, this income is lost and must be considered as one of the costs of constructing the new building. If the old building is demolished or moved, its salvage value is usually small compared to the cost of demolition and the amount of future income lost. As an illustration of this, consider the following example. Assume an old building in the downtown area of a city is producing an annual net income of $40,000 per year and the building has a market value of $400,000 based upon this income. The owner of the building and land is contemplating the construction of a new building that will cost $800,000 and produce an annual net income of $100,000 per year. Should the owner leave things as they are or should he demolish the old building and construct a new one?

If he decides to keep the old building, he will continue to receive an annual net income of $40,000 from the building, and the $800,000 that would have been invested in the new building can be invested elsewhere. Thus he will receive income from

two sources: the old building and $800,000 worth of other investments.

If he decides to construct the new building, the old building will be destroyed and with it an annual net income of $40,000. Now his income is limited to one source, the new building when it is completed; his annual net income will be $100,000 per year. Whether or not he will construct the new building depends primarily on how much he can earn by investing the $800,000 in other investments. If he can earn more than $60,000 it will be to his advantage to keep the old building. Why? Because he will still be earning $40,000 from the old building, and if he can earn over $60,000 on the $800,000, if invested elsewhere, his total income will be greater than the $100,000 he would have received if he had destroyed the old building to make way for the new one.

This example demonstrates that the annual net income from the new building must be large enough both to justify the cost of the new building and to compensate for the lost income of the old building. This means that the demand for the new type of land use must be substantially greater than the demand for the present type of land use. Otherwise, it will be impossible to charge rents that are high enough to enable the property owner to make money or break even.

The primary reason the private market has not replaced certain buildings in downtown areas is that the demand for a new type of land use was not sufficient to make it economically feasible to destroy the old buildings, which have a large amount of residual economic value, and build new ones. In other words, private developers have decided that the rents obtainable from new construction in certain areas of cities would not be sufficient to recover their total investment (which includes the value of the old building) with a profit.

It is claimed that the federal urban renewal program makes it possible to replace old buildings with new ones within the framework of the private market. This is not true; instead, it attempts to bypass or short-circuit the framework of the private market.

The net cost of an urban renewal project is paid for by the government. The federal government meets the major part of this cost; the local government, and in some cases the state government, makes up the balance. Federal financial assistance is provided throughout the life of a project by planning advances, temporary loans, long-term loans, and outright grants. The various types of federal financial aid may be divided into three categories:

1. *Short-term financing:* cash advances for planning and temporary loans for project execution.
2. *Long-term financing:* a special type of loan used in a small number of projects to finance the leasing of land to private developers.
3. *Grants:* cash payments from the federal government in amounts up to three fourths of the net cost of the project.

The federal government will lend funds to cover expenditures during the survey and planning stage of a project that is being conducted on the two-thirds formula basis. This type of loan is called a planning advance. If the project is being undertaken on the three-fourths formula basis, the local renewal agency must provide its own funds for survey and planning.[3] The federal planning advance must be repaid with interest out of the first federal funds that become available to the local renewal agency for the undertaking of the project. Although the amount of money advanced for planning purposes is relatively small, it has been growing steadily. The time pattern of its growth is presented in Figure 2.1. For more detailed information on planning advances, refer to Table A.2 in Appendix A. From 1950 to 1962, over $111 million of planning advances were authorized, and $80 million of this amount was actually disbursed to local renewal agencies. At the end of 1962, $47 million had been repaid, leaving $33 million outstanding.[4]

The amount of money disbursed for planning advances is a rough indicator of future urban renewal project activity, and the annual amount of money advanced for planning purposes has been increasing steadily. In 1962 nearly $18 million was

advanced, the largest amount to date. This clearly indicates that the program is growing, and extensive plans are being drawn up to implement it in the future.

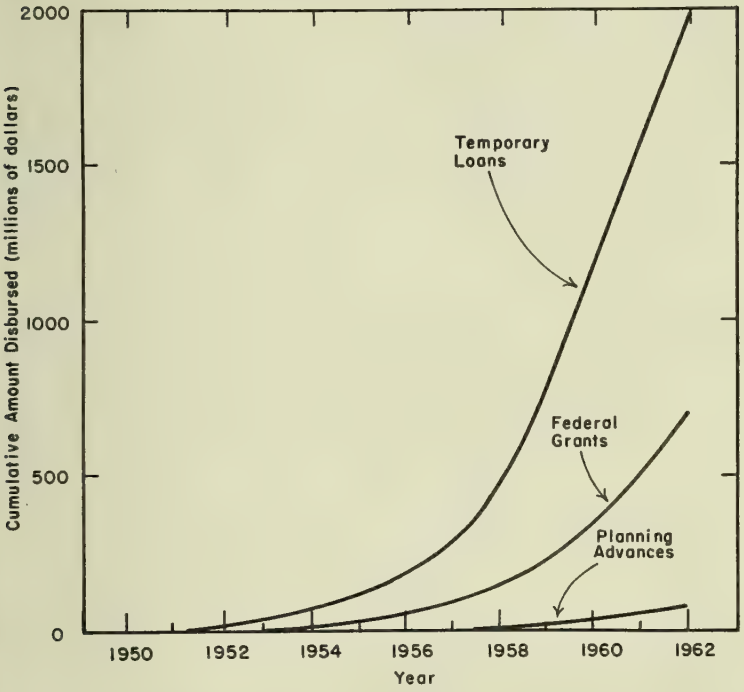


FIGURE 2.1 *Amount of money disbursed for urban renewal projects — temporary loans, federal grants, and planning advances.*

SOURCE: 16th Annual Report, 1962, Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., Table VII-3, p. 295.

Direct federal loans or federally secured loans finance the actual execution of the project. Federally secured loans are temporary loans made by private lending institutions to local renewal agencies, and are guaranteed by the federal government.

The major buyers of these short-term notes (of six to twelve months duration) are commercial banks, industrial corporations, and dealers.[5] Direct federal loans are temporary loans made by the federal government to local renewal agencies.

The interest rate on federally secured loans has always been substantially lower than the interest rate on direct federal loans. (See Figure A.1 in Appendix A). The interest rate on direct federal loans is the "going long-term federal rate" specified by the Secretary of the Treasury.[6] Because the market rate is lower than the going federal rate, a direct federal loan will generally be made only when a private loan is not available for any of the following reasons:

1. The local renewal agency does not have the legal power to engage in private financing.
2. The local renewal agency is unable to furnish a no-litigation certificate required for the issuance of municipal obligations.
3. Private financing cannot be arranged at an interest rate lower than the project temporary loan interest rate stipulated in the loan and grant contract.
4. There is not sufficient time for orderly completion of the private financing transaction before the loan funds will be needed.
5. The amount of the loan required is not large enough to justify private financing. A private loan of less than approximately $200,000 is not desirable.[7]

As shown in Figure 2.1, the amount of temporary federal loans outstanding has increased dramatically during recent years. At the end of 1962, almost $2,300 million in loans had been authorized and $1,997 million had been actually borrowed by local renewal agencies. Of this amount, $614 million was loaned by the federal government, while the remaining $1,383 million took the form of federally guaranteed loans and was provided by private financial institutions.

Of the $1,997 million that had been borrowed, $415 million was repaid at the end of 1962, leaving over $1,582 million outstanding. For a detailed summary, see Table A.3 in Appendix A.

The Urban Renewal Administration classifies outstanding loans in two categories: "outstanding" and "refunded." "Outstanding" loans amounted to $1,028 million; these loans have not come due and are not repaid. "Refunded" loans amounted to $554 million and are essentially the same as outstanding loans. A refunded loan is one that has come due and has been refinanced or extended past its original due date.

The amount of temporary loans disbursed is an indicator of activity in the public sector of urban renewal. It means that local renewal agencies are actively acquiring land, demolishing buildings, displacing people, and making site improvements. Most of this activity has developed in recent years; 85 per cent of the amount of temporary loans disbursed from 1950 to 1962 was disbursed after 1957. This clearly shows that extensive activity in the preparatory stages of urban renewal is a recent phenomenon. The amount of temporary loans disbursed shows no indication of declining. Thus it seems reasonable to assume that there will be a fairly high, sustained level of activity in the public sector of the federal urban renewal program in the foreseeable future.

As the urban renewal program developed, a striking change took place in the relationship between federal and federally guaranteed loans. In 1952, the federal government made 100 per cent of the temporary loans. Ever since then the federal share has decreased, and at the end of 1962 only 30.7 per cent of actual temporary loans were of the direct federal variety. This change is summarized in Table A.4 in Appendix A.

It is obviously to the advantage of the local renewal agency to borrow on the open market because the interest rate is lower. The trend toward federally guaranteed loans reflects the fact that the circumstances which made it impossible for them to do this in previous years are being rectified and, as a consequence, the proportion of local renewal agencies forced to borrow from the federal government is growing smaller.

Most of the funds loaned on a temporary basis to local renewal agencies are needed for longer periods than the six- to twelve-month basis on which they are made. It is often necessary for the

local renewal agency to refinance or extend the loan when it comes due, and this is a relatively easy matter. Usually the loans are refinanced or extended until the project is completed, and thus the short-term loans are in effect the same as a long-term loan. Because the urban renewal process has often taken a great deal longer than anticipated, many of these so-called temporary loans have been outstanding for five years or more.

As of December 31, 1962, only 20.8 per cent of the temporary funds borrowed during the period from 1950 to 1962 had been repaid. (See Table A.3 in Appendix A.) To call these temporary loans short-term is misleading; they could more appropriately be called medium- or long-term. These so-called temporary loans require that large amounts of money be available for long periods of time. So far the amount has not been large enough to put significant strains on the financial markets, but if the program continues to grow rapidly, it seems likely that it might put significant demands on the financial markets in the near future, as well as affect the government's credit or interest rate position.

A definitive long-term loan is used to finance the capital value of that portion of land in a project area that is leased for redevelopment rather than sold. The duration of the loan cannot exceed forty years.[8] The loan is made by the federal government to the local renewal agency, which in turn collects rent on the land and uses the proceeds to repay the federal loan. The annual lease rate to the redeveloper is usually 6 per cent of the land's capital value. To date only a few of these loans have been made. An official of the Urban Renewal Administration estimated that roughly $50 million of these loans were outstanding at the end of 1961.[9]

Federal Capital Grants — Project Execution

The most important type of financing is the federal capital grant. The government classifies federal grants in three ways:

1. Disbursed capital grants refer to the total amount of money actually given to the cities by the federal government.

2. Authorized capital grants are grants that have been authorized by a formal loan and grant contract between the local renewal agency and the federal government.
3. Earmarked or reserved capital grants refer to the total amount of grants that the federal government anticipates will be requested of them in view of the current plans and operations of the local renewal agencies. Authorized grants plus the amount expected to be needed for those projects in planning are equal to earmarked or reserved grants.

The amount of earmarked and authorized capital grants has grown rapidly over the years, with the main part of the growth taking place during the last few years. In 1962, earmarked capital grants rose to $3,014 million. Of this, $1,687 million had been authorized by contracts between the federal government and the local renewal agencies. No capital grants were disbursed until 1953, but since then the disbursements have grown steadily. At the end of 1962, $712 million had been given to the cities. The time pattern of disbursed federal grants is shown in Figure 2.1 and a detailed summary of earmarked, authorized, and disbursed capital grants is given in Table A.5 in Appendix A.

An examination of Figure 2.1 shows that there is a time relationship between reserved or earmarked grants, authorized grants, and disbursed grants. Grant reservations or earmarkings are indicative of the amount of urban renewal activity that will probably take place in the distant future (five or ten years). The amount of grants disbursed reflects the past progress of urban renewal. The rapid, consistent growth of all three categories indicates clearly that the urban renewal program's scope is widening rapidly and shows no sign of slackening.

Federal grants are payable in installments called "progress payments." In order to receive progress payments, at least 25 per cent of the real estate to be acquired for the project must have been acquired. The aggregate of progress payments cannot at any time exceed 75 per cent of the total authorized capital grant. A major completion grant payment is payable when the project is substantially completed. This payment, together with progress

payments, may equal 95 per cent of the capital grant. In order to be eligible for this payment the following requirements must be met:

1. Title must be held to 100 per cent of the land, and 90 per cent must have been paid for.
2. 95 per cent of the relocation program must have been accomplished.
3. All demolition and site clearance must have been completed.
4. 60 per cent by value of project land to be disposed of must have been sold, and an additional 30 per cent must be under disposition contract.
5. 50 per cent of site improvement contracts must have been awarded.[10]

The final capital grant payment is payable at the time of financial settlement when all phases of the project, exclusive of new construction, have been completed.

Local Financing of the Public Cost

The local renewal agency usually supplies one third of the funds necessary to cover the net project cost. This one-third share may be in the form of cash payments or noncash grants-in-aid. Noncash grants-in-aid consist mainly of the expenditures that the city makes on supporting facilities and site improvements within the urban renewal area. At the end of 1962, the total estimated local share of the net cost of authorized urban renewal projects was $802 million. Much of this $802 million is expected to take the form of local noncash grants-in-aid. At the end of 1962, this category accounted for 63 per cent of the total local contribution. There is a strong incentive for the local renewal agency to use grants-in-aid. In some cases, public facilities that would have been built without urban renewal are erected in urban renewal areas. Because they are built in urban renewal areas rather than in other parts of the city, the federal government pays two thirds of the cost.

In other cases, local improvements may be shifted into an urban renewal area or the urban renewal area may be enlarged to include them. In either case the effect is the same: projects, largely independent of the main purpose of the federal urban renewal process — buildings which the city was going to build anyway, or buildings which have been shifted into the urban renewal area from other areas of the city — are constructed with the aid of large federal subsidies.

In most cases the cities would not otherwise receive these subsidies. Carl Coan, Chief of Staff of the Subcommittee on Housing of the Senate Committee on Banking and Currency, in a letter to the Advisory Commission on Intergovernmental Relations on February 22, 1962, stated:

> The one item which seems to plague us constantly in making decisions regarding Federal legislation is the proper allocation of responsibility between the States and the Federal Government in carrying out urban renewal activities. In recent years, there has been a continued push towards more and more Federal involvement in the development of local communities. This year I understand that there are many proposals which would increase the Federal Government's responsibility in this regard. I have particular reference to the extent to which non-cash grants-in-aid should be permitted by localities in carrying out urban renewal programs. For example, there are some cities that have planned their urban renewal program for many years in the future in such a way that no cash contribution will be necessary by the community. In fact, some of these communities have developed their plans to require that the Federal Government pay two-thirds of the cost of all public improvements in the city, such as schools, recreational areas, parking lots, public buildings, etc. for many years to come. This issue is going to become even more pronounced as cities begin to move into the development of their downtown areas with the expectation that the federal government will carry the largest share of the cost of downtown improvements.

Supporting facilities have accounted for roughly 62 per cent of the noncash grants-in-aid since 1950. In earlier years the percentage rose as high as 69 per cent, but it dropped to 62 per cent by 1956 and has hovered about that mark since that year. The percentage of grants-in-aid devoted to site improvements has

been steadily increasing. From 20 per cent in 1954, it has climbed to over 29 per cent in 1962. Together, supporting facilities and site improvements compose about 87 per cent of the local noncash grants. The remainder is made up of land donations and expenses for demolition. The percentage accounted for by land donations has declined sharply from 14 per cent in 1956 to 5.6 per cent in 1962. Demolition expense has been relatively constant at just over 1 per cent throughout the program. The local financing of estimated net project cost is summarized for the period from 1954 to 1962 in Table A.6 in Appendix A. Cash payments as a percentage of the total local share have declined steadily over the years. From a high of 48 per cent during 1955, they have declined to slightly over 37 per cent in 1962. During this period noncash grants-in-aid showed a corresponding increase.

As the local renewal agency adds more site improvements and facilities, total local expenditures increase by the full cost of the improvements and facilities. Local expenditures constitute part of gross project cost, and thus gross project cost increases by the prorated cost of the added supporting facilities and site improvements. The prorated cost refers to the percentage of use of these supporting facilities and site improvements that will come from the urban renewal area. For example, if it is expected that 60 per cent of the use of a particular facility will be derived from the urban renewal area, then 60 per cent of the cost of this facility can be added to the gross project cost. As was noted previously, net project cost is computed by subtracting the proceeds derived from the sale of the improved land from the gross project cost. These proceeds are essentially independent of the amount of supporting facilities and site improvements, and thus net project cost increases by the same amount that gross project cost increases — that is, by the amount of the prorated local expenditures. If the disposition proceeds increase because of the addition of the noncash local grants-in-aid, then some of the added cost is shifted to the developer. However, the federal government will still bear two thirds of the net increase in cost that is not shifted to the developer. Thus, as the net project cost

increases, the federal government cash subsidy increases by two thirds of the increase in net project cost. The result is that the federal government usually pays for two thirds of the prorated cost of added site improvements and public facilities.[11]

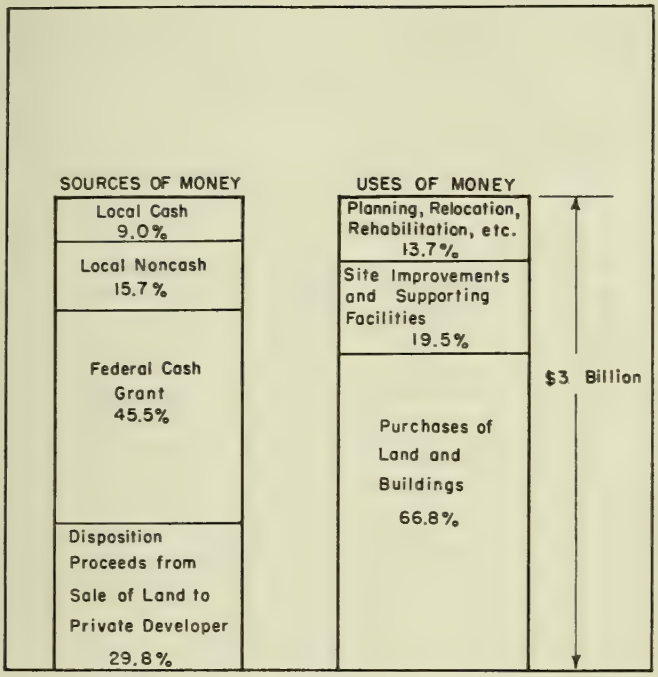


FIGURE 2.2 *How the gross project cost of urban renewal is financed and what the money is used for.*

SOURCE: Urban Renewal Project Characteristics, Urban Renewal Administration, Washington 25, D. C., December 31, 1962; 555 projects reporting.

Theoretically, the local share of the cost of urban renewal is one third of net project cost. However, over 60 per cent of the local share is in the form of noncash grants-in-aid. The federal government pays for two thirds of the cost of these noncash

grants-in-aid, thereby directly subsidizing the construction of municipal facilities. Thus there is a strong incentive for the local renewal agency to increase the amount of noncash grants-in-aid. As the amount of the noncash grants-in-aid increases, the incentive of the local renewal agency to obtain a high price for the cleared land decreases. The net result is an over-all increase in the public cost of the program.

A graphic summary of the sources and uses of public funds in urban renewal is presented in Figure 2.2.

To summarize, two thirds of the gross cost of an average urban renewal project results from the purchases of land and old buildings in the urban renewal area. Another one fifth is accounted for in the construction of new public facilities and site improvements. The rest of the cost stems from a variety of items, such as planning, relocation, administration, and interest expense. The cleared and improved land is usually sold for around 30 per cent of the cost of obtaining and preparing it. Public money is needed because the federal government is attempting to meet certain social objectives by changing land-use patterns in urban areas, presumably within the framework of private enterprise.

Federal financial assistance is provided throughout the life of the project. It takes the form of planning advances, direct temporary loans, federally guaranteed temporary loans, definitive long-term loans, and outright grants. Direct federal temporary loans and federal grants account for most of the federal money disbursed. Because federal urban renewal is a very long process, the "temporary" loans have effectively developed into medium- or long-term loans.

Chapter Two Notes

[1] *Urban Renewal Manual*, Urban Renewal Administration, Washington, D. C., 1962, Volumes 1, 2, and 3.

[2] *Urban Renewal Project Characteristics*, Urban Renewal Administration, Washington 25, D. C., December 31, 1960; 463 projects reporting.

[3] See research note 1 in Appendix B.

[4] *16th Annual Report*, 1962, Housing and Home Finance Agency, Washington 25, D. C., Table VII-3, p. 295.

[5] Interview, Mr. Max Lipowitz, Director of Finance, Urban Renewal Administration, Washington 25, D. C., March 1962.

[6] *Urban Renewal Manual,* Urban Renewal Administration, Washington 25, D. C., 1962, Section 17-6-8, Exhibit A.

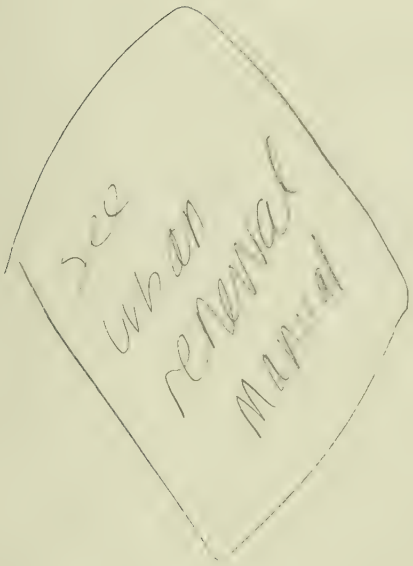
[7] *Ibid.,* Section 19-6-3, p. 1.

[8] *14th Annual Report,* 1960, Housing and Home Finance Agency, Washington 25, D. C., p. 286.

[9] Lipowitz, *loc. cit.*

[10] *Urban Renewal Manual,* Section 17-5-3, Urban Renewal Administration, Washington 25, D. C., 1961.

[11] See appendix to this chapter for a fuller discussion of this issue.



Chapter Two Appendix

According to the Urban Renewal Manual, the maximum project capital grant for the first completed project is the least of

1. The difference between the net project cost and the local grants-in-aid actually made.
2. Two thirds (or three fourths) of the net project cost.
3. The dollar amount stated in the contract for loan and grant.

Keeping this in mind, let

N = net project cost
NC = noncash grants-in-aid

The federal government will pay the least of the following alternatives:

1. Two thirds of net project cost N or
2. Net project cost less noncash grants-in-aid.

When NC becomes greater than $N/3$, alternative 2 becomes less than alternative 1. Because of this the federal government pays two thirds of net project cost up to the point where $NC = N/3$. From there on it pays only the difference between N and NC. It was shown earlier that N will usually increase by the same amount as NC. Thus, as NC increases, the difference between N and NC remains constant, and the federal share does not increase further. Therefore, the federal government's contribution increases by two thirds of the amount of increases in local expenditures up to the point where $NC = N/3$. From this point on the federal contribution is independent of increases in local expenditures and remains constant. All local expenditures in excess of $N/3$ must be borne entirely by the local government.

From the viewpoint of the individual city, it would be rational to increase prorated local expenditures on site improvements and public facilities until they were equal to one third of the net project cost. All improvements and facilities added within this range are in reality purchased by the city at a 66 2/3 per cent discount.

Usually the local renewal agency is able to make a reasonably accurate estimate of what the total gross project cost and its components will be. Their estimate of net project cost is more uncertain because it is influenced by the amount received from the sale of the improved land, which usually occurs in the later phases of the project. In most cases the price received for the land is determined by negotiation between the local renewal agency and the developer.

What incentive is there for the local renewal agency to elicit the maximum price from the buyer? As was shown earlier, a critical point is reached when noncash grants-in-aid reach one third of net project cost. Net project cost is a function of gross project cost and the price received for the urban renewal land. Thus the higher the price received for the land, the lower the net project cost, and vice versa. If gross project cost and the amount of noncash grants-in-aid are known, it is possible to determine the sale price of the land that will cause noncash grants-in-aid to equal one third of net project cost.

Let:

P = price received by local renewal agency for cleared land

$^*P$ = the "critical price" of the cleared land that makes noncash grants-in-aid equal to one third of net project cost

G = gross project cost

NC = noncash grants-in-aid

N = net project cost

The critical point is reached when

$$NC/N = 1/3$$

But

$$N = G - P$$

And therefore:

$$NC/(G - P) = 1/3$$

$$3NC = (G - P)$$

Dividing both sides by G and rearranging yields

$$NC/G = (1/3)\ [1 - (P/G)]$$

Since NC and G are known, it is possible to compute the value of P that will satisfy the equation. This P is called the critical price $^*P$. There is no incentive to the city to increase P beyond $^*P$, because any further increase in P goes entirely to the federal government. Therefore, it appears that the price received for the land will exceed $^*P$ only when this price is obtainable without any extra effort on the part of the local renewal agency.

As presently set up, the program has a built-in incentive that

1. *Increases* the amount of local noncash grants-in-aid, which increase in turn tends to
2. *Decrease* the price received by the local renewal agency for the cleared land.

Considered from the city's point of view, these effects are beneficial. New public facilities are subsidized substantially by the federal government, and it becomes easier for the city to dispose of the improved urban renewal land. But from a national viewpoint, these same effects must necessarily increase the total cost of the federal urban renewal program.

One possible solution to this problem would be to require the local renewal agency to match the federal contribution in cash at some specified ratio. Local noncash grants-in-aid would be subtracted from net project cost to yield residual project cost. The federal government would pay x per cent of this residual project cost, and the local renewal agency would pay $100 - x$ per cent in cash. This formula would have a dual effect. It would effectively curtail excess construction of public facilities, because the city would now bear the full burden of their cost. It would also cause the city to seek the maximum price for the land because the higher the price they received for the land the lower their cash contribution would be.

CHAPTER THREE

THE PROGRAM MUSHROOMS

"Never was born . . . I spect I grow'd"

Topsy
Uncle Tom's Cabin

In some ways the growth of the federal urban renewal program has been amazingly swift; in other ways it has been agonizingly slow. This seeming paradox results because some phases of the program have grown rapidly, while other phases have grown slowly. Because of the diverse nature of the program's growth it is essential that the various parts of the federal urban renewal program be evaluated separately if we are to get a clear idea of its growth pattern.

According to a number of indicators the program is growing rapidly and becoming increasingly complex. The number of projects in operation is increasing steadily, and almost all states and major cities now have them. At the same time, those in charge of the program have become more energetic, and the scope of urban renewal operations has been widened considerably.

In the operation of these projects it is meaningful to speak of two distinct stages: the preparatory stage and the result stage. Most of the social and economic costs are incurred in the preparatory stage; most of the new construction and resultant benefits occur in the result stage. When we talk about the growth

of the federal urban renewal program, we shall discover that most of the growth has been concentrated in the preparatory stage. Substantial progress has been made with respect to the number of persons forced from their homes, the number of businesses forcibly displaced, the number of buildings demolished, and the amount of public money spent on improving the cleared areas.

On the other hand, activities in the result stage have proceeded rather slowly. A relatively insignificant number of projects have been actually completed, and new construction activity has been proceeding generally at a slow pace. No city that I know of can claim to have been "renewed" by the program. If one had to characterize the general growth of the federal urban renewal program, it could perhaps be done best by saying that the plans and preparations for urban renewal have grown rapidly, the actual results have come very slowly.

There are three ways to look at the growth in the number of urban renewal projects: first, the number completed; second, the number in the process of execution; and, third, the number in planning. The number of projects actually completed is quite small. Although the program started in 1949, it was not until 1956, seven years later, that the first project was completed. The growth in the number of projects completed has been relatively slow; 41 were classified as complete by the end of 1960,[1] and the latest report shows that 86 were completed at the end of 1962. It should be noted carefully that the federal government has a rather unique way of classifying a project as being completed. A project is considered completed by the government when the last part of the federal grant is given to the local renewal agency.[2] It does not necessarily mean that all the proposed new construction has been completed, although in many cases it has been. For example, in 1960, all the new construction was finished in 25 out of the 41 projects reported as completed.[3]

An examination of these 25 projects that were finished reveals another characteristic of the growth pattern of urban renewal. All of these 25 projects were relatively small ones. The average expected gross cost of an urban renewal project has been slightly

over $5 million; the average gross cost of these 25 projects was less than $1 million. For the remaining 16 projects, where the loan and grant contract with the federal government had been completed but where only a part of the new construction was finished, the average gross cost was slightly less than $2 million.[4] This is admittedly a small sample, but it does show that the urban renewal projects that have progressed the fastest have been very small ones. There is nothing abnormal about this; it is to be expected that, all other things being equal, small projects should take less time than large ones.

However, its implications become serious when we consider what this type of progress means. As of March of 1961, the federal urban renewal program, after being in existence for 12 years, had not yet demonstrated that it could effectively carry through a large project to completion. New construction had not been completed in any project reporting a gross project cost of over $4.5 million, and 17 out of the 25 projects in which construction was complete had reported gross costs of under $1 million. What does this mean? Does it indicate that the planners are unable to cope with complexities of a large project? Does it indicate that we should expect it to take 10, 15, or possibly 20 years for the urban renewal officials to complete a typical project? Perhaps it is too early to say, but the evidence points strongly to the conclusion that those in control of the program are having a difficult time carrying projects through to completion.

Now let us turn to the growth of projects in execution. By 1950 eight projects were under way, and the number of projects in execution has grown consistently since then. From 8 in 1950, it climbed steadily to 110 in 1955, to 444 in 1960, and by the end of 1962 it had reached 588. Notice that most of these projects entered the execution phase after 1955, with the result that most of the projects in execution began operations in the last decade. From 1960 the growth has been especially rapid, with approximately 38 per cent of the total projects in execution at the end of 1962 having been undertaken during the preceding three years.

The pattern of growth for projects in the planning stage has followed a somewhat different course. By 1950, there were already 116 projects in the planning stage. This jumped quickly to about 192 in 1951 and hovered between 191 and 230 until 1956, when it increased to 299. Since then there has been a somewhat erratic growth in the number of projects in the planning stage: in 1960 it was 385; in 1962 it was 536. In comparison to the pattern of growth of completed projects and projects in execution, the number of projects in planning has been relatively constant. A detailed summary of the number of projects in planning, in execution, or completed is given in Table A.7 in Appendix A. A graphic presentation of the same data is given in Figure 3.1. This chart shows how the total number of projects has grown over the period of time the program has been in existence and the characteristics of this growth. The number of projects in execution and the number of completed projects have increased at a relatively consistent rate. The growth of the number of projects in planning has followed a more erratic course.

The geographical growth of the program has also proceeded quite rapidly. In 1962 there were 1,210 projects in some stage of the urban renewal process, and they were distributed among 636 cities throughout the United States. Most of the large cities in the United States have at least one urban renewal project. The five largest cities in the country — New York, Chicago, Los Angeles, Philadelphia, and Detroit — are all heavily committed to the urban renewal process. New York, for example, had 22 major projects outstanding in 1962. In general, the larger cities have responded to the urban renewal program much more readily than the smaller cities. Seventy-nine per cent of the cities of over 100,000 population had federal urban renewal projects in 1962, whereas only 11 per cent of the cities with less than 100,000 population had them. This is broken down in detail in Table 3.1, where it is clear that the larger a city the greater are the chances that it will have an urban renewal project.

In regard to actual geographical location, most of the federal urban renewal program has been centered in the Northeast,

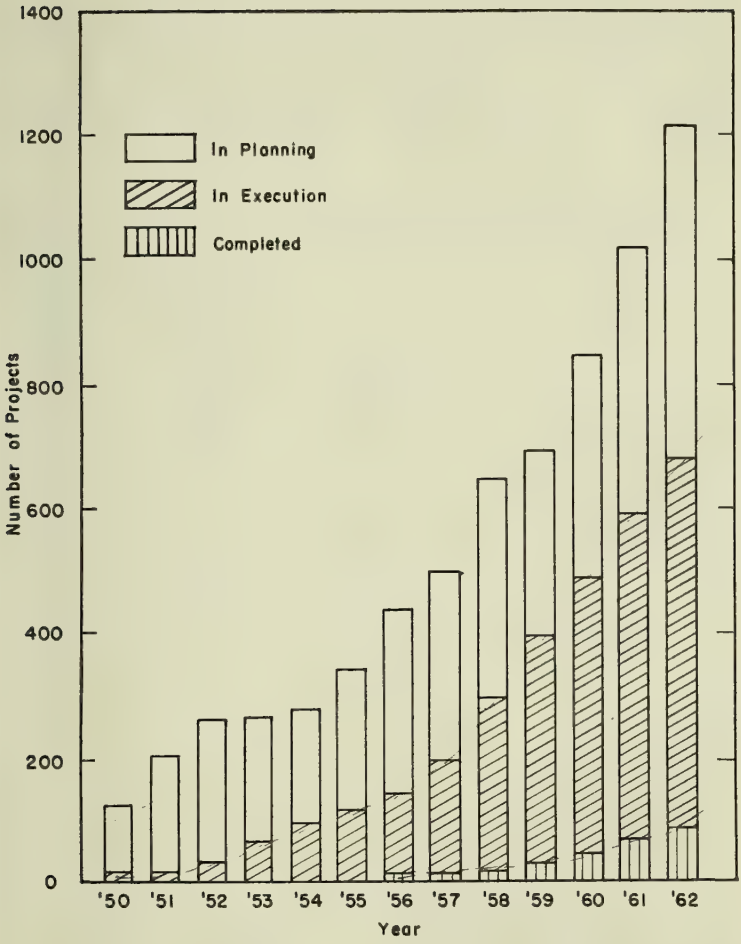


FIGURE 3.1 *Number of authorized urban renewal projects in planning, in execution and completed — 1950 to 1962.*

SOURCE: 16th Annual Report, 1962, Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., Table VII-2, p. 295.

although certain areas in the Midwest (Illinois and Ohio) and the West (California) have also received large amounts of money from the government for urban renewal. As of March 1961, $405 million of federal grants had been given out. The New England states, plus New York, Pennsylvania, and New Jersey,

TABLE 3.1

NUMBER AND PER CENT OF CITIES WITH URBAN RENEWAL PROGRAMS, BY SIZE OF CITY, AS OF DECEMBER 31, 1962

Size of City	*Total Number of Cities*	*Number of Cities with Federal Urban Renewal Projects*	*Per Cent of Cities with Federal Urban Renewal Projects*
1,000,000 and Over	5	5	100
500,000 to 1,000,000	16	13	81
250,000 to 500,000	30	24	80
100,000 to 250,000	81	62	77
50,000 to 100,000	203	106	52
25,000 to 50,000	427	129	30
10,000 to 25,000	1,146	170	15
2,500 to 10,000	3,115	127	4
TOTAL	5,022	636	13
All Large Cities (over 100,000)	132	104	79
All Small Cities (under 100,000)	4,890	532	11

SOURCE: Urban Renewal Project Characteristics, Urban Renewal Administration, Washington 25 D.C., December 31, 1962, page 7, Table 1.

had received $192 million, or 47.5 per cent of this amount. New York alone received 20.8 per cent of the total. Illinois and Ohio together received 14.4 per cent, and California accounted for 4 per cent. There is no question that, although the projects are widely distributed, they are heavily concentrated in a few areas, especially with regard to the amount of money being spent. For example, three states — New York, Pennsylvania and Illinois — had received 42.6 per cent of the grants disbursed by March of

1961. At this same point in time, 14 states had not received anything. The amount of the grant that each state received is summarized in Table A.8 of Appendix A.

Another indicator of the growth of the program is the amount of land that is taken by local renewal agencies. At the end of 1962, federal urban renewal projects covered 36,377 acres of urban land. This is an area almost three times as large as the Borough of Manhattan in New York City. Sixty-eight per cent of this acreage was taken by the federal urban renewal program from 1956 to 1962. During this period of time the rate of increase in urban renewal acreage was roughly 25 per cent per year.

One of the best indicators of a program's size and growth is the amount of money that has been spent on it in the past and is expected to be spent in the future. The costs discussed in this section are public costs — local, state, and federal. They do not include money spent for private construction in urban renewal areas. The amount of public money that is actually spent on urban renewal each year is not precisely known, but it is possible to develop a reasonably good estimate of it.

The initial expenses of a typical urban renewal project are usually financed by a cash advance from the federal government to the local renewal agency. As the project progresses, the bulk of the expenses are financed by large, temporary loans from the federal government. In the later stages of the project, the federal government makes cash grants to the local renewal agency. These cash grants are primarily used to repay the advances and loans, but in some cases they may be used directly for project expenses. The estimated annual amount of public money expended on urban renewal was computed by summing

1. The advances.
2. The temporary loans.
3. 50 per cent of the grants.

In this estimating procedure it was assumed that the amount of federal advances and temporary loans that have actually been disbursed were spent during the year they were received by the local renewal agency. The basis for this assumption is that the

local renewal agency is not supposed to request an advance or a loan unless it has a definite need for the money. However, the amount of advances and loans disbursed by the federal government does not accurately reflect the total amount spent. The local renewal agency also receives money from other sources such as federal cash grants, local cash grant payments from the city, and disposition proceeds from the sale of cleared land. With the present sources of data it is not possible to determine exactly when these payments occur. According to an official of the Urban Renewal Administration, 50 per cent of the amount of cash grants disbursed by the federal government would be a rough estimate of the amount spent over and above the amount of federal advances and temporary loans.[5]

If we use the procedure just described, it is estimated that cities with urban renewal programs had collectively spent $2,433 million as of December 31, 1962. A time series of the estimated cumulative annual expenditures of public money is presented in Figure 3.2 and in Table A.9 of Appendix A. The rate of growth of cumulative expenditures has been high, and most of the growth has taken place during the last five years. Approximately 90 per cent of the total spent since 1949 was expended from December 1956 to December 1962.

The amount of actual public expenditures on urban renewal is a good indicator of the growth of the preparatory actions of urban renewal. These actions include the acquisition of private property by negotiation or eminent domain, relocation of families, demolition of buildings, and improvement of the cleared land. An examination of Figure 3.2 clearly shows that substantial growth has occurred in the preparatory phase of urban renewal. As will be shown in detail later, much less progress has been made in the "result phase" of urban renewal. Buying, moving, and destroying has proved much easier to accomplish than building.

This time pattern of expenditures for urban renewal may possibly explain why few people are familiar with the program. Although the program has been in effect since 1949, only recently have significant sums of money been spent on it. If

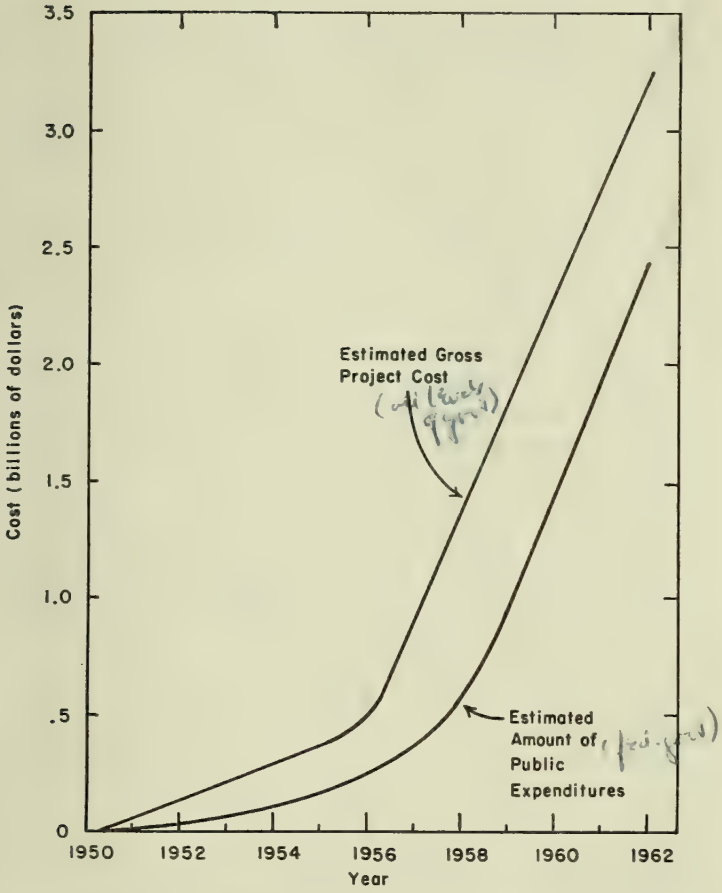


FIGURE 3.2 *Estimated gross cost of all projects and estimated amount of public money spent — cumulative 1950 to 1962.*

SOURCE: Urban Renewal Project Characteristics, Urban Renewal Administration, 1954 — 1962; *Annual Reports,* Housing and Home Finance Agency, 1950–1962, Washington 25, D. C.

expenditures continue to grow as rapidly as they have been in the past few years, the effects of the program will become more obvious, and perhaps will soon be as familiar as the government programs for farmers and veterans.

In the same way that public money spent indicates the growth of the preparatory phase of urban renewal, the estimate of total gross project cost is a good indicator of the potential growth of the program. Gross project cost is the sum of all public expenditures which will be necessary to convert a slum into a land package that is salable to a private redeveloper or other buyer, and includes expenditures for real estate purchases, site improvements, supporting facilities (schools, libraries, streets, and so on), interest on debt, land acquisition, site clearance, administration and overhead, survey and planning, relocation, inspection, and rehabilitation. The estimated final gross cost of projects in execution or completed has increased rapidly over the past ten years. The time pattern of this growth is shown in Figure 3.2. Like actual expenditures, most of the increase in total gross project cost has taken place in recent years. Over 86 per cent was added during the period from 1956 to 1962. At the end of 1962, the total gross project cost of 604 projects in execution or completed was $3,258 million.

Gross project cost estimates are not available for projects in the planning stage. To estimate the magnitude of this amount, it was assumed that the ratio of gross project cost to federal capital grant reservations will be the same for projects now in planning as it is for those in execution. On this basis the projected total gross cost of all current projects (1962), regardless of their stage of completion, is almost $6,500 million.

The estimates of gross project cost indicate still further increases in the preparatory actions of urban renewal. On the basis of present plans alone, it seems obvious that private property will continue to be acquired by local renewal agencies, people will continue to be displaced, and buildings will continue to be destroyed. Generally speaking, the federal urban renewal program has progressed fairly rapidly in the preparatory actions associated with urban renewal. Unfortunately, most of the social

and economic costs of urban renewal are intimately connected with this preparatory stage. Keeping this in mind, let us turn to an evaluation of the rate of growth of the "result phase" of the program, the phase that contains the promise of urban renewal — the bright, orderly buildings, the strengthened tax base, the renewed city.

The total amount of new construction started, both public and private, has been relatively small in urban renewal areas. During the period from 1949 to March, 1961 when an estimated $1.43 billion of public money was being spent on urban renewal, only an estimated $824 million of new construction was started. Perhaps it could be optimistically assumed that $500 million of this new construction had been completed, but even so, it is clear that the rate of new construction activity has been slow. A certain amount of time lag is to be expected because the preparatory stage of urban renewal must, of course, precede the new construction. But even if an allowance is made for this there are still indications that the "result stage" of federal urban renewal is moving slowly. Very little construction was begun prior to 1957; in fact, 70 per cent of the estimated $824 million of construction started as of March 31, 1961, was initiated after 1956. It appears that the rate of new construction activity will be accelerated in the near future as the large backlog of urban renewal projects moves into the construction stage. However, if the scope of the program continues to widen at the rate it has maintained in the past, it is likely that the amount of new construction started will continue to remain relatively small compared to the over-all size of the program and the amount of public money spent.

After five years, little had been accomplished, and the Housing Act of 1954 was amended to provide a much wider approach to the professed problem. It was felt that the area which the typical urban renewal project encompassed prior to 1954 was not large enough for the process to be effective. In many cases, the surrounding areas detracted from the potential attractiveness of the urban renewal area and thus made it difficult to attract tenants. It was also felt that it was not enough to attempt to clear

slums; an attempt should also be made to rehabilitate areas of the city that were potential slums. If it appeared that the proposed urban renewal area was so large that the renewal activities would probably have to be carried out in stages over a period of ten years, the General Neighborhood Renewal Plan (GNRP) was to be used. This plan, which is of much wider scope than the project type operation, is intended to be in the interest of sound community planning. It must be established that it is desirable to plan a large area for urban renewal purposes. Federal funds may be advanced to a locality for the preparation of a general neighborhood renewal plan. They may be repaid from loan funds provided for the initial project approved under the plan. In essence, the GNRP encompasses one or more separate urban renewal projects, and may involve redevelopment and rehabilitation.

As the next logical step in the evolution of urban renewal, the Community Renewal Plan (CRP) was developed. The Urban Renewal Administration believed that a "piecemeal" approach to community improvement and slum elimination would not work. An over-all approach was thought necessary to attack community-wide blight and deterioration. A community renewal program is designed to provide a comprehensive approach to the community's urban renewal needs. It is supposed to identify and measure, in broad terms, the total need for urban renewal in the community, and relate this need to the resources available in the community. Then a long-range program is developed to carry out urban renewal activities. A federal grant, not to exceed two thirds of the planning cost, may be made to a locality to develop a community renewal plan. So far, both the General Neighborhood Renewal Plan and the Community Renewal Plan have been relatively ineffective. It seems that in the past, when the program did not appear to be achieving its goals, its scope was increased in the hope that if it was larger it would work better.

The future path of urban renewal is unknown, but the past record of the federally aided urban renewal program shows that almost all activity has been concentrated in individual urban renewal projects, encompassing relatively small areas of urban

land. For this reason this study is mainly concerned with such projects. Because individual projects are the core of any general neighborhood renewal plan or community renewal plan, it is expected that any insights resulting from an analysis of individual project activity will be useful in evaluating the concepts of wider-scope renewal plans.

The characteristics of the growth patterns of the federal urban renewal program have implications for the future course of the program that cannot be ignored. The initial phases include most of the social and economic costs, and it is apparent that these are the areas which are expanding rapidly. The program is incurring costs far more rapidly than it is receiving benefits. And yet the growth continues unabated. So far the federal urban renewal program has shown an amazing capacity to evolve and grow without producing results that would clearly justify further growth and expansion. It appears that while the actual accomplishments of the program have been relatively meager, the growth of attempts to renew parts of cities has been large, and the growth of plans for future attempts has been startling.

Chapter Three Notes

[1] *Urban Renewal Project Characteristics*, Urban Renewal Administration, Washington 25, D. C., December 31, 1960, Table 3, p. 9.

[2] The Urban Renewal Administration considers a project completed when the final federal grant payment has been made, thus canceling the federal government's contract with the local renewal agency.

[3] *Physical Progress Quarterly Reports* (unpublished), Urban Renewal Administration, Form H-6000, Washington 25, D. C., March 31, 1961.

[4] *Ibid.*

[5] Interview, Mr. Max Lipowitz, Director of Finance, Urban Renewal Administration, Washington 25, D. C., March 1, 1962.

CHAPTER FOUR

THE CONSEQUENCES

> To commit violent and unjust acts, it is not enough for a government to have the will or even the power; the habits, ideas and passions of the time must lend themselves to their committal.
>
> de Tocqueville

The consequences of a typical federal urban renewal project are often harsh. People are forcibly evicted from their homes, businessmen are forced to close their doors, buildings, good and bad, are destroyed — all in the name of an appeal to some higher "good," the public interest.

Those in favor of urban renewal usually do not like to discuss the unpleasant consequences of the program. When placed in a position where they have to discuss it, they will often attempt to evade the issue or utter vague phrases about the seriousness of the problem and the need for doing something about it. They might reply something like this: "Yes, that is a problem, and we must continue to stress the importance of enlisting the full cooperation of communities engaged in urban renewal to help solve these basic social problems." Vague generalities of this type do not alter the objective facts, and they seldom stir anyone to examine the problem and its causes rigorously. In this chapter we shall attempt to examine the nature and magnitude of the more serious consequences of the federal urban renewal program.

The number of people directly affected by the program is

beginning to reach huge proportions. When the program first started, the number of people displaced was small and their cumulative voice of protest was shrill but weak. At present, the number is swelling rapidly, and it is becoming increasingly difficult for proponents of the program to ignore or evade the issue — the number is now large enough to have a significant say at the polls.

As of December 31, 1962, the Urban Renewal Administration reported a total of 259,504 families that had lived or were presently living in urban renewal areas. This number is based on a total of 735 projects that submitted data on the number of families in their project area.[1] The remaining 475 projects, most of which were in the planning stage, did not submit reports of this aspect of urban renewal for one reason or another. In order to get some idea of the total number of families that are involved, it was assumed that the average number of families per project would be the same for the projects that had not reported data as it was for the projects that had reported data. On this assumption it was estimated that 427,000 families were directly involved in the urban renewal process as of December 31, 1962.

We do not know the exact number of people involved in the federal urban renewal program because the Urban Renewal Administration publishes data on only the number of families, not on the total number of people. Thus we cannot be sure whether the families we are talking about consist of two people or ten people. This type of reporting is unfortunate because it tends to de-emphasize the large number of people who are affected by the program and the seriousness of what is being done. However, it is possible to get a close estimate of the total number of people involved.

According to one study made by the School of Public Administration of the University of Southern California, the average size of 31,687 displaced families studied by them was 3.78 persons.[2] This average is slightly understated because all families with seven or more persons were grouped into one category for computational purposes. This average of 3.78 persons compares quite closely with the national average, which was 3.65 persons

in 1960.[3] If we conservatively assume that the average family size in a "blighted" area designated for urban renewal is the same as the average family size for the entire country, we can easily estimate the total number of persons involved in the process. There were 427,000 families involved in the program at the end of 1962; multiplying this by an average family size of 3.65 reveals that 1,558,550 persons were involved.

The Urban Renewal Administration also publishes figures on the number of individuals maintaining separate households in the urban renewal areas. As of December 31, 1961, 486 projects reported a total of 42,666 individuals within their site areas.[4] If we assume that the same proportion of individuals will be affected by the 724 projects not reporting data, it is estimated that about 106,000 individuals are involved.

Thus, if we count both families and individual households, there were approximately 1,665,000 American citizens involved in the federal urban renewal program at the end of 1962. This is approximately the same number of people that live in Detroit, Michigan, the fifth largest city in the United States. Some of these people have already been forced out, the rest will be on their way eventually. Many of those projects in the planning stage at the end of 1962 will have moved into the execution stage by the end of 1965, and thus it is likely that at least *one million* people will be evicted by the end of 1965.

How many people have already been evicted? The latest data published by the Urban Renewal Administration shows that by March 31, 1963, 152,803 families and 51,434 individuals had already been evicted. Using our previous estimating procedure, this means that over 609,000 persons had already been moved by early 1963. And this is by no means the end; in fact, it is probably just a small start. According to Mr. William L. Slayton, Commissioner of the Urban Renewal Administration:

> With the speedy expansion of urban renewal programs, and with the prospect that *1,000,000 families* will be displaced through urban renewal activities during the next decade, more precise and thorough relocation planning has assumed even greater urgency.[5]

Let us pause on this a moment. The statement was made in the

middle of 1962, and, if the estimate is correct, it means that the federal government, working in conjunction with local authorities, will forcibly displace approximately *four million* American citizens by 1972. And we cannot draw the line here; hundreds and perhaps thousands of new projects will be on the way. It can only be conjectured at this point as to what the final count will be, but there seems to be little doubt that millions of people will be deprived of their private property rights and forcibly evicted by the federal urban renewal process if it continues. This is an immense cost that must be faced up to squarely.

What happens to these people once they have been forced from the urban renewal area is still a little vague. The original law contained legal provisions which were supposed to alleviate the difficulties that these people face, and local and federal government officials consider this one of the most difficult problems of urban renewal today. Few question the validity of moving the people in the first place, but many are seriously concerned with what happens to them after they move. Commissioner Slayton recently stated:

> According to federal law, displaced families must be offered standard housing at prices or rents they can afford, in locations convenient to their places of work. We have reworked our relocation procedures to make as certain as we can that housing will be planned, will be made available, and will be accessible to displaced site occupants when the time to move arrives. We have placed special emphasis on local relocation planning, which has been the weak point in a number of programs.[6]

There may be no reason to doubt the sincerity of statements of this type, but let us take a look at the reasoning implicit within it. Most of the people who live in these so-called "blighted" areas have very low incomes relative to the rest of the population of the United States. They live in substandard housing either because their income is so low it forces them to, or because they wish to allocate part of their income to expenditures other than housing. Thus, the prices they pay are either what they can afford to pay or what they want to pay.

Now the law says that displaced persons must be offered

standard housing at rents they can afford in convenient locations. This raises an interesting question. If standard housing is available at rents they can afford in convenient locations, why haven't they moved long ago? Perhaps they were not aware of it. If this is the case, wouldn't it be far simpler and much cheaper to advise people of these attractive bargains without going to all the trouble of tearing their homes down? These considerations would lead one to suspect that there are not many standard homes available at low rents in convenient areas. In other words, there are no Cadillacs available at Chevrolet prices.

It would seem logical to assume that one gets what one pays for. A nice home in a convenient location commands a high price and someone must pay. If the government wishes to move a person from a substandard home into a standard one, the chances are very great that the rent will be higher. If it is higher, the displaced person will either be forced to pay a higher proportion of his income to live there or the government must up the difference by a subsidy.

There is one other point that should be noted carefully at this point. It is an implicit one and it comes up often. People often use phrases such as "standard housing," "rents they can afford," and "locations convenient." Let us ask what they mean. When government officials talk of standard housing, we should ask, "Standard by whose judgment?" In the same context, who decides what rents the displaced families can afford, who decides what a convenient location is, and by what standards or values are these decisions made?

Families displaced by the urban renewal process are entitled to receive payments from the government to cover part, and in some cases all, of their relocation expenses, as well as any direct property losses. For projects whose contracts were executed prior to August 7, 1956, the local renewal agencies were authorized by the federal government to provide financial assistance to needy families and individuals being displaced by urban renewal.[7] Under these provisions 9,192 families and 3,286 individuals received government aid for moving expenses averaging $60 per family and $54 per individual. This aid to displaced families was

stepped up by the Housing Act of 1956 which permitted local renewal agencies to make relocation payments up to a maximum of $100 to a family or an individual. The Housing Act of 1959 further increased this to $200. However, this is the maximum amount payable, and the average payment per family is considerably lower than $200; in fact, many families and individuals receive nothing.

As of December 31, 1961, 112,721 families and 36,616 individuals had been required to move.[8] How many of them received government aid? Amazingly, only 51 per cent of the families and 53 per cent of the individuals received any payment for moving expenses or property losses. The rest received nothing. How much money was received by those who did get payments? The families in the 51 per cent that received aid averaged payments of about $71 per family; the individuals in the 53 per cent that received aid averaged about $48 each. Thus, while it is possible to receive $200, few in fact do; and almost half receive nothing.[9]

What happens to the people who are forced to move? Do they occupy temporary quarters while their part of the city is being renewed, and then move into the gleaming, new buildings? Or are they forced to seek housing elsewhere? If they are forced to seek housing elsewhere, is it good or is it bad? Let us examine these questions in order.

In 1950, one year after the program started, there were about 1,850,000 dilapidated dwelling units in the United States. The Bureau of the Census collected monthly rent data for 1,540,000 of these units and discovered that 90 per cent of the occupants of dilapidated housing paid less than $40 a month for rent. The distribution of monthly rents paid by these people is shown in Figure 4.1. As you can see, the distribution is highly skewed toward the left, emphasizing the fact that occupants of dilapidated housing pay very low rents. It is also true that the income level of these people is low. In 1950, 77.6 per cent of the families and individuals occupying nonfarm dilapidated housing earned less than $1,000 a year.[10] It seems reasonable to conclude that most of the occupants of dilapidated housing in 1950 were paying very low rents and probably could not afford to pay more.

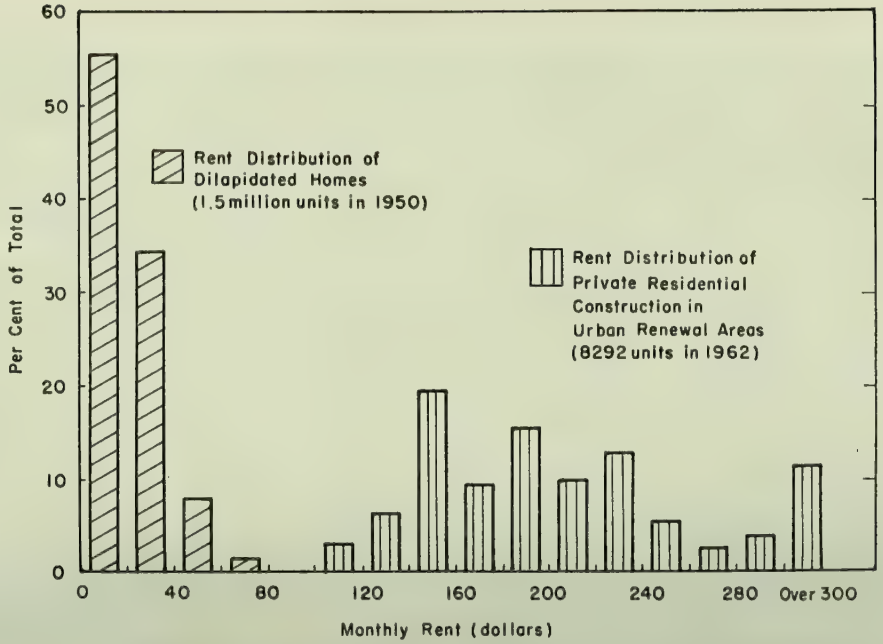


FIGURE 4.1 *Distribution of monthly rents for dilapidated homes in 1950 and for private residential construction started in urban renewal areas in 1962.*

SOURCE: Bureau of the Census, *U.S. Summary: 1950*, "Renter-Occupied Units — Dilapidated," Table A-2, pp. 1-4; *16th Annual Report*, 1962, Housing and Home Finance Agency, Washington 25, D. C., p. 125,

The federal urban renewal program operates in the so-called "blighted" areas of cities, in which most of the poorer residents live. There is very little information available concerning the average rents which the people were paying before they were forced to move. However, it is logical to assume that the rents that they were paying were relatively low. The distribution of rents shown in Figure 4.1 gives us an indication of the amount of rent they are paying, but it probably understates it. For example, a report drawn up by the Boston Renewal Authority in 1962 at the request of the City Council showed that the level of rents paid by displaced persons was slightly over $40 a month. A total of 8,508 individuals and 3,203 families had to move from the New York Streets Project, and the West End and Whitney Street Projects in Boston. The average rentals paid by tenants in the condemned areas ranged from $41 in the South End to $47.47 at Whitney Street for an over-all average of $42.96 a month. Their average income was slightly over $3,000 a year.[11]

Because of the incompleteness of the data it is not possible to determine the average monthly rent precisely, but it would not seem unreasonable to assume that the average monthly rent paid by people living in these areas would not be higher than $50 or $60 a month. Of course, there will be exceptions to this, but the main point is that the people who are forced to move are characterized in two ways:

1. They have relatively low incomes.
2. They pay relatively low rents and usually cannot afford or do not wish to spend more.

Can they move back to their old neighborhoods? There are no legal restrictions; the only question is whether or not they can afford to. Two types of housing are constructed in cleared urban renewal areas, privately owned housing and publicly subsidized housing. During the ten-year period from 1950 to 1960, approximately 25,000 private dwelling units and 3,000 units of public housing were built within urban renewal areas.[12] Most of the private rental units were concentrated in high-rise apartment buildings and commanded high monthly rents. Complete data

are not available on the monthly rents charged for these units, but there is little question that it is very high relative to the rents that were being paid on the old buildings. In 1957 the median monthly rent of dwelling units located in urban renewal areas and insured by the Federal Housing Administration was $124; in 1960 it rose to $158.[13] In 1962, 8,292 rental units located in urban renewal areas were insured by the FHA. The monthly rent charged ranged from $100 a month to over $360 a month, with the median monthly rent being about $195. The range of the monthly rents charged for those units insured in 1962 is shown in Figure 4.1.

When one compares the estimated level of income and the average monthly rents paid by those displaced to the average monthly rents charged on the new buildings which replaced their homes, it is clear that almost all of those who are forced to move are unable to pay the monthly rents being charged for the new apartments. Of course, there are some publicly subsidized units available, but 3,000 units or so do not go very far among several hundred thousand people. A move, courtesy of the federal urban renewal program, can, for all practical purposes, be considered a permanent one.

If almost all of the people evicted by urban renewal are unable to move back into their old neighborhood, it is obvious that they must find new homes elsewhere. Do their living conditions improve or do they become worse? This should be a fairly easy question to answer, but, because of the scarcity of adequate information, it is not. According to government studies, the great majority of these displaced persons improve their living conditions without suffering undue hardships; according to the private studies there are some doubts as to whether this is true. First, let us look at the private studies.

In 1961 the School of Public Administration of the University of Southern California concluded a four-year inquiry into urban renewal relocation programs in 41 cities throughout the United States. This was done by means of questionnaires, personal visits, and supplemental correspondence. Their study included a total of 47,282 families — 24,475 from four large cities with more than

one million population, 9,744 from nine cities with populations ranging from one half to one million, and 13,063 families from 28 cities with populations ranging from 100,000 to 500,000.

The study revealed a great variation in the counseling facilities maintained for displaced families.

> All reporting cities provided convincing evidence of their minimal compliance with these requirements laid out by federal specification; the phlegmatic, often insensitive manner which characterized this fulfillment within a number of municipalities, however, was marked.
>
> In over half of the reporting communities (26) prospective relocatees received mimeographed or printed handbills which described such particulars as probable vacating dates, the demolition timetable, and the intended uses for the cleared land. Displacing authorities left to the initiative of site occupants, with but one or two exceptions, the seeking out of whatever information they, the displacers, might have amassed concerning suitable off-site housing. . . . Only about one-third (15) of all communities scrutinized furnished evidence of making competent relocation counsel available on a family-by-family basis. . . .[14]

Because of this, the study concludes that, in a great many cases, the displaced families have found new homes without recourse to the displacing agent's guidance or advice. They suggest that this has not happened because the government refused to give help, but because the program was operated according to minimal compliances tolerated by federal rules.

The main thrust of the study was directed at determining the quality of housing that the displaced persons moved into. They reported that a large percentage of the people find new homes by themselves and that a great deal of this housing is substandard. For the people who are relocated with the help of the local renewal agency, the degree of substandardness is less but still quite substantial.

> . . . only 25.9 percent of all uprooted households in cities of more than one million population moved into dwellings recommended by the relocating authority.
>
> For these families, according to the evaluations of their new habitations made by the relocating staffs in each community, only 30 percent of acquired housing was deemed to be substandard.

Among the self-relocated, however, with due allowance for varying numbers of displaced households in each community whose off-site addresses were unknown or uninspected (about 15 percent of the total in this category), the *incidence of substandardness approximated 90 percent.* [My italics.]

. . . The cities in the middle population category (500,000–999,999), it may be noted, have undergone relatively comparable experiences. Although their proportion of cooperatively relocated families to self-relocated was higher than that of the largest communities (51 percent), the respective incidents of substandardness in off-site housing among each group was fairly parallel.

. . . Among the smallest-sized municipalities, moveover, the story is generally the same.[15]

It was also reported that average rent paid by the dislocated families was considerably higher than what they had been paying before they were forced to move. The exact amount of the increases (or decreases) in individual cases cannot be determined accurately because data is nonexistent for most relocated families. However, the partial information they did manage to collect does set forth the nature of what is happening.

In three cities with more than one million population, on the basis of returns for 986 families (a 4 percent sample of all households relocated), rental costs for 342 cooperatively rehoused families jumped approximately $7 monthly; for the remaining self-relocated households, $11. Chicago found for all families relocated in 1953 and 1954 that gross rents in off-site shelters rose $30 monthly, reaching $68 in the standard dwellings on the average and $57 in the substandard. For Philadelphia, though, the documentation with respect to 145 relocated families indicates a less extreme leap. Forty-five cooperatively relocated families sustained only a $3 average monthly increase in rents; 100 self-relocated families, a $5.25 average monthly increase.[16]

Other private studies and newspaper reports have illustrated the same type of problem for specific communities. Privately sponsored studies generally indicate that the people displaced by urban renewal tend to move into housing of approximately the same quality as the housing they move from, and, in addition, they pay higher monthly rents. In most cases their predicament is compounded, not alleviated, by urban renewal.

However, there is another side to this story which should be examined closely. The Urban Renewal Administration surveys their local renewal agencies throughout the country concerning relocation experience and publishes a summary of these reports. According to the government summary the relocation experience of the displaced people has been a relatively happy one.

The basic data of families displaced by urban renewal are obtained by the Urban Renewal Administration in this way:

> Each locality which is displacing families as a result of urban renewal is required to interview and keep a record for each family which enters the relocation workload and is subsequently relocated. Families enter the relocation workload when the properties they inhabit are acquired by the locality for urban renewal treatment. The record contains information on the characteristics of the families, their requirements for relocation, the relocation assistance offered, and the kind of housing they move to. From these records, each locality submits a monthly report on the progress of relocation to the Urban Renewal Administration. The monthly progress reports are tabulated and summarized periodically. The resulting data provide a national picture of relocation from urban renewal areas. . . . The Housing to which displaced families move is *inspected by the locality* [my italics] and classified as to standardness according to relocation standards described in detail in the Relocation Program developed by the local public agency and approved by us before a Loan and Grant Contract is authorized.[17]

As of December 31, 1961, the government reported that more than 127,000 families had been displaced by urban renewal. Of this number, almost 80 per cent were reported to have moved to standard housing. The remaining 20 per cent were almost evenly divided among those who moved out of the city, could not be located at their new address, or had relocated themselves in substandard housing and refused further offers of assistance from the local renewal agencies.[18] In a later report dated March 31, 1963, the number of families relocated had increased to almost 153,000, and the percentage which supposedly moved into good housing remained at 80.[19]

Obviously there is a substantial amount of disagreement between the government reports and the private ones. Why?

Reduced to its essentials the problem is this: the studies are all looking at the same displaced people and the same homes which they have moved to; thus the reason for disagreement must lie in the standards which are used to evaluate the housing. The only way to settle this question effectively is to use official Bureau of the Census data, both for the old locations and for the new ones. At present this is impractical because of the large amount of time and money that such a study would require. The best we can do at this point is to speculate as to why this discrepancy exists.

The key point to note in the data used by the federal government is that the determination of whether or not a dwelling unit is "standard" is left entirely in the hands of local government officials. An official who is interested in speeding up the process of an urban renewal project may be tempted to apply high housing standards in order to justify the condemnation of part of the city, and, later on, to apply low housing standards in order to justify the quick relocation of the displaced people. As long as the federal government continues to use reports based on locally determined standards instead of more objective, consistent Bureau of the Census data, it is likely that their reports will indicate that a high proportion of those displaced move into good housing.

The notion that over 80 per cent of the people displaced by urban renewal move into good housing is difficult to reconcile with other relevant facts. The people are poor. A great many of them are Negroes and Puerto Ricans. Good quality, conveniently located housing is relatively scarce; good quality, conveniently located housing for $50 to $60 a month is almost impossible to find. It is difficult to picture hundreds of thousands of low-income people, many of them subject to racial discrimination, moving from low-quality housing into higher quality housing at rents they can afford. And then one might ask why, if all this good housing at low rents is available, didn't they move before urban renewal nudged them along?

The total relocation problem is further compounded because so many of those displaced are Negroes or Puerto Ricans. These

groups constitute a very high proportion of the displaced people. According to the government reports they accounted for about 76 per cent of the total in 1957, 71 per cent in 1959, 68 per cent in 1960 and 66 per cent in 1961.[20] The percentage has been slowly declining, but it still represents almost two thirds of the total number of people displaced. Because of this the program is sometimes referred to as a "Negro clearance" program, with its goal being the creation or preservation of a white, middle-class neighborhood.[21]

One of the most serious consequences of the federal urban renewal program is the effect that it has had on the supply of low-rent housing. Contrary to what is commonly believed, the federal urban renewal program has actually made housing conditions worse for the poorer residents of cities.

Urban renewal usually destroys before it builds, and the buildings that are destroyed contain a substantial number of dwelling units. On March 31, 1961, 415 projects submitted reports detailing their demolition plans. These projects contained 215,310 dwelling units that were to be destroyed. Of these 415 projects, 326 had already started demolition activity, and, as of the reporting date, over 126,000 dwelling units had been destroyed. Most of these homes were of relatively low quality; 101,000 were classified as substandard by the officials of local renewal agencies, 25,000 were classified as standard.[22] In using the figures about the quality of the housing destroyed, it should be kept in mind that these are locally determined standards, and, as such, may not correspond to the more generally accepted standards of the Bureau of the Census. In fact there may be some tendency for local officials to use higher standards in their evaluation procedures because of possible adverse public reaction to the destruction of a large number of standard units. While one cannot prove this, it seems reasonable to assume that the relative amount of substandard homes destroyed is overstated. However, even if we take these figures at face value, it is still evident that a significant amount of standard dwelling units are also destroyed.

Because these 126,000 homes were located in "blighted" areas, it is very likely that most of them had very low monthly rentals

compared to other homes in the same cities. Thus, as of March 31, 1961, the federal urban renewal program had effectively removed over 126,000 low-rent dwelling units from the total housing supply. It is true that a great many of these were probably in relatively poor condition, but the fact remains that they were providing shelter for their occupants. Now let us take a look at the number and quality of new dwelling units that were constructed under the auspices of the federal urban renewal program.

There are no published figures available concerning the number of new dwelling units that were built within urban renewal areas, and therefore, it is necessary to estimate it. As of March 31, 1961, an estimated $462 million of private residential construction had been *started* in urban renewal areas. The basis for this estimate of new construction is given later in Chapter 6. The median amount of the mortgage per dwelling unit, for urban renewal mortgages insured by FHA during 1960, was $14,484, and the median ratio of the mortgage amount to the estimated replacement cost for these units was 88.6 per cent.[23] In other words, the average mortgage was for $14,484 and this was 88.6 per cent of the estimated replacement value, or $16,346.

An estimate of the total number of new privately owned dwelling units started was obtained by dividing the total estimated value started, $462 million, by the median estimated value of the FHA insured units, $16,346. According to this estimating procedure, approximately 28,200 units were started. We are not sure what percentage of those started were actually finished by March 31, 1961, but if our estimating procedure is correct it will certainly be less than 28,200. For example, if we assumed optimistically that 75 per cent of the homes were completed, the total would be slightly over 21,000. In an attempt to be on the conservative side, let us assume that something on the order of 25,000 new, privately owned dwelling units were constructed. While we cannot be positive of the exact number, we can be reasonably sure that it is highly unlikely that it would be less than 20,000 or higher than 30,000.

There has also been a small amount of publicly subsidized

housing built within urban renewal areas; by March 31, 1961, an estimated $50 million worth had been started. If we conservatively estimated that the average cost of one of these units was $12,500, it would mean that approximately 4,000 units had been started. If we again assume that 75 per cent of these were completed, it would mean that somewhere around 3,000 units of publicly subsidized housing had been completed by that date.

Now let us total up the net results. The federal urban renewal program, during the period up to March 31, 1961, destroyed about 25,000 homes in standard condition and constructed approximately 28,000 new ones. Of the new ones, about 25,000 were privately owned and 3,000 were publicly subsidized. Most of the standard homes that were destroyed were in the low-rent category, most of the new homes are in a much higher monthly rent bracket. At the same time, the program destroyed about 101,000 homes considered to be substandard by local government officials. In over-all terms, over four times as many homes were destroyed as were built. And, because demolition usually leads new construction activity by a considerable length of time, it appears that as long as the program continues to expand, more homes will be destroyed than are built. Under the current pattern of urban renewal new construction will only catch up with demolition activity when the program stops growing.

In essence, the federal urban renewal program eliminated 126,000 low-rent homes, of which 80 per cent were considered to be substandard, and replaced them with about 28,000 homes, most of them in a much higher rent bracket. Thus, the net effect of the program has been to aggravate the housing problem for low-income groups and to alleviate it for high-income groups. The absolute amount of homes involved are quite small relative to the existing housing inventory in the United States. What is important is the direction in which the federal urban renewal program has been operating. It has worsened the situation that it set out to solve by reducing the number of homes available to those people who don't have much money to spend and by expanding the choice for those who can afford to spend more.

Although most urban renewal projects are predominantly resi-

dential in character, they often contain substantial numbers of businesses. The businesses located in these condemned areas range from one-man offices to industrial concerns with several hundred employees. The total number of businesses affected by the federal urban renewal program is not precisely known at this time, but all indications are that it is quite large. According to a report financed by a grant from the Small Business Administration:

> It is estimated that there are over 100,000 business firms in all 650 project areas. . . . The approximately 100,000 firms scheduled for dislocation from project areas on December 31, 1959 represent a beginning only. . . .
>
> . . . New projects have been started at an increasing rate. Although no precise forecasts have been made, it is expected that the volume of business dislocations from renewal areas over the 1960–1970 decade will be *at least twice the 100,000 already underway or planned.*[24] [My italics.]

The great majority of these displaced firms are small businesses. Their lack of size and of economic and financial resources leads to many problems when the firm is forced to relocate.[25] The displaced firms rarely have over five employees and are usually commercial establishments, especially food stores, eating and drinking establishments, and personal service organizations.[26]

The Urban Renewal Administration reported on December 31, 1961, that 25,906 businesses had already been acquired by them in urban renewal projects throughout the United States. Approximately 83 per cent of them had already been forced to move as of the reporting date.[27] This number will continue to grow as long as the program continues to expand, and it may not be long before the total passes 100,000.

The Housing Act of 1956 permitted local renewal agencies to make "relocation payments" up to a maximum of $2,000 to a business concern for actual moving expenses and direct loss of property; the Housing Act of 1957 increased the maximum to $2,500; the Housing Act of 1959 increased it further to $3,000; the Housing Act of 1961 provided that the relocation payments may equal their total certified actual moving expenses even though the expenses are in excess of $3,000.[28]

It should also be noted that the relocation payments are at the option of the local authority and the kind and extent of assistance provided depends on the availability of local agency personnel.[29]

As in the case of displaced families, many of the displaced business firms receive no payment at all; the average payment of those who do get something is considerably less than the maximum allowable. As of December 31, 1961, only 59 per cent of the 21,439 evicted firms had received any payment at all. Forty-one per cent had received nothing. The average payment going to those firms who did receive payments was $1,090—not $3,000. This makes it clear that substantial numbers of displaced businesses individually bear part of the monetary costs of renewal as well as losing their right to private property.[30]

What happens to a business when it is forced to move? Do they stay in business? Where do they move to? According to the study conducted for the Small Business Administration a large number of firms in urban renewal areas never relocate at all. They either go out of business or disappear.

The "death rate" experience of 21 urban renewal projects in 14 cities covered by this study reveals that 756 of the 2,946 firms involved either went out of business or disappeared. On the basis of this study one could conclude that it is likely that one out of every four firms that gets involved in an urban renewal program will cease operations.[31]

Other studies indicate that the situation may be worse. In a 550-page study made at Brown University, the researchers found that 40 per cent of the businesses in the urban renewal areas of Providence, Rhode Island, had to go out of business.

The study goes on to point out that with few exceptions employees of the nonsurviving companies experienced a decline in income even though a majority re-entered the labor force in some other capacity. Along this same line, another study, prepared by the Library of Congress, concluded recently that urban renewal projects "are destroying small businesses and jobs and contributing to our unemployment problem."[32]

Extremely few relocated firms ever move back into the urban

renewal areas. Before being forced to move, they typically paid very low rents as compared with competitors in other parts of the same city. Rental rates generally averaged less than half those of the other areas.[33] Rental rates in a "renewed" area are apt to be much higher than before, and even though priority is almost universally given to displaced firms that can meet the requirements of the reuse plan of the local officials, very few have taken advantage of this opportunity. According to a small sample of 4 cities containing 1,142 displaced firms, only 41, or 3.6 per cent, actually moved back into the urban renewal areas.[34]

According to the Small Business Administration study, most of the displaced firms relocate near their old location and pay about twice as much rent as they were paying before.

> Dislocated businessmen almost invariably relocate in the same city. Approximately 75 percent of those who do relocate find quarters within one mile of their former location; and nearly 40 percent within one-quarter mile. They generally occupy about the same floor area they did before (which is less than they claimed to want or need), at a square foot rental at least double what they were paying (which is much more than they claimed to be able to afford or to be willing to pay).[35]

These actions of the urban renewal program have aroused considerable resentment among small businessmen. They don't like to be pushed around. The reaction of Mr. Vadasz, owner of a small pastry shop on Manhattan's West Side, is typical:

> I've been in this location for over nine years. My wife and I worked like horses 12 to 14 hours a day to make something of this place. Now they come and kick us out.[36]

Chapter Four Notes

1 *Urban Renewal Project Characteristics*, Urban Renewal Administration, Washington 25, D. C., December 31, 1962. Table 3, p. 9.

2 Reynolds, Harry W., Jr., "What Do We Know About Our Experiences with Relocation?", *Journal of Intergroup Relations*, Volume 2 (Autumn 1961), Table II, p. 344. (Based on a study of 31,687 displaced families and 12,871 displaced individuals in 41 United States cities. These cities included New York, Chicago, Philadelphia, Detroit, St. Louis, Baltimore, Minneapolis, Washington, D. C., Pittsburgh, Boston, Milwaukee, Buffalo, San Francisco, and 28 smaller localities.

[3] *Statistical Abstract of the United States,* U.S. Department of Commerce, Washington 25, D. C., 1961.

[4] *Relocation from Urban Renewal Areas* (through December 1961), Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., Table 11, p. 19.

[5] "News," Urban Renewal Administration, Washington 25, D. C. HHFA-URA-No. 62-319, June 7, 1962.

[6] *Ibid.*

[7] *Relocation from Urban Renewal Project Areas* (through June 1960), Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., p. 14.

[8] *Relocation from Urban Renewal Project Areas* (through December 1961), Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., p. 9.

[9] *Ibid.*, Table 14, p. 22.

[10] U.S. Bureau of the Census, 1950, Volume II, *Nonfarm Housing Characteristics,* Part 1, *U.S. and Divisions,* Table A-4.

[11] *The Boston Globe,* February 13, 1962, a.m. edition, "Boston Renewal So Far: High Rents Replace Low," by William H. Wells, p. 1.

[12] The estimates of new dwelling units are developed later in this chapter.

[13] *14th Annual Report,* 1960, Housing and Home Finance Agency, Washington 25, D. C., p. 142.

[14] Reynolds, *op. cit.*, p. 345.

[15] *Ibid.*, p. 351.

[16] *Ibid.*, pp. 352, 353.

[17] Letter received from William L. Slayton, Urban Renewal Commissioner, October 21, 1963.

[18] *Relocation from Urban Renewal Project Areas* (through December 1961), Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., p. 7.

[19] "Summary of Relocation Activity through March 31, 1963," Urban Renewal Administration, Washington 25, D. C. Enclosure in letter from William L. Slayton, Commissioner of Urban Renewal, October 21, 1963.

[20] *Relocation from Urban Renewal Project Areas* (through December 1961), Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., Table 2, p. 11.

[21] Rossi, Peter H., and Robert A. Dentler, *The Politics of Urban Renewal,* New York, The Free Press of Glencoe, Inc., 1961, p. 224.

[22] *Physical Progress Quarterly Reports* (unpublished), Urban Renewal Administration, Form H-6000, Washington 25, D. C., March 31, 1961.

[23] *14th Annual Report,* 1960, Housing and Home Finance Agency, Washington 25, D. C., Table III-62, p. 134.

[24] Kinnard, William N., Jr., and Zenon S. Malinowski, *The Impact of Dislocation from Urban Renewal Areas on Small Business,* Prepared by the University of Connecticut under a grant from the Small Business Administration, July 1960, pp. 2, 3.

[25] *Ibid.*, p. 3.

[26] *Ibid.*, p. 75.

[27] *Relocation from Urban Renewal Project Areas* (through December

1961), Housing and Home Finance Agency, Urban Renewal Administration, Table 12, p. 20.

[28] *Ibid.*, p. 21.

[29] Kinnard and Malinowski, *op. cit.*, p. 5.

[30] *Relocation from Urban Renewal Project Areas* (through December 1961), Housing and Home Finance Agency, Urban Renewal Administration, Table 12, p. 20, and Table 14, p. 22.

[31] Kinnard and Malinowski, *op. cit.*, pp. 44, 45.

[32] *Washington Report,* Chamber of Commerce of the United States, Washington 6, D. C., December 20, 1963.

[33] Kinnard and Malinowski, *op. cit.*, p. 75.

[34] *Ibid.*, p. 63.

[35] *Ibid.*, p. 75.

[36] Penn, Stanley W., "Many Firms Evicted by Federal Projects Face Relocation Woes," *Wall Street Journal,* January 9, 1962, p. 1.

CHAPTER FIVE

THE LAND LIES VACANT

It takes all the running you can do
to keep in the same place.
If you want to get somewhere else,
you must run at least twice as fast as that.

The Red Queen
Through the Looking Glass

There is one fact about urban renewal that many of the people associated with the program would like to ignore, and which many of them do ignore. This is time. The process of bringing a new building into existence in an area under the control of the federal urban renewal program is very long and frustrating. The impression one gets from reading the pronouncements of local planners and politicians in the newspapers is that the urban renewal process is difficult, but, with a little luck and the complete cooperation of everyone concerned, the gleaming, new buildings should be rising skyward in a couple of years.

A careful study of the actual experience that the federal government has had with the program from its beginning in 1949 up to March of 1961 shows clearly that a typical federal urban renewal project will take approximately 12 years to complete. The length of time varies, of course, according to the size of the project, the city in which it is located, and other factors. But the evidence that a typical project takes a very long time is overwhelming. Even if we were to bias our estimates optimistically,

it would be very unreasonable to expect that a good-sized urban renewal project could be accomplished in less than ten years.

There are many reasons why the length of time required for the completion of an urban renewal project is highly relevant to any evaluation of the program. First, there are consequences associated with the physical loss of the buildings. People do not pay taxes on buildings that have been destroyed, and every year that passes before the new buildings are completed means that the city loses tax revenues it otherwise would have received. Urban renewal proponents usually find these facts painful to face and discuss, but they are quite important. As we will see in Chapter 10, this loss of taxes while the land lies vacant is one of the main reasons why it appears that the federal urban renewal program has not produced the great increase in tax revenues confidently predicted.

Time is also relevant because we should know what we can realistically expect the program to do to the people in the urban renewal area. Some of the displaced people are able to move back into public housing; about 6 per cent of the total new construction is publicly subsidized housing. The effectiveness of this housing depends on how much time passes between the day when the family is forced to move from their old home and the day when they are able to move into the public housing. During this time they must live elsewhere, and the longer this interval of time is, the greater the relative decrease in the housing supply.

The most important effects on the housing supply occur in the "private" sector of urban renewal housing. The decrease in the physical housing supply, caused by the destruction of buildings within the urban renewal area, is concentrated almost wholly in low-rent apartments and houses. The new construction cannot be compared validly to the old construction. The new apartments, on the average, rent for about $195 a month, with a considerable number renting for over $360 a month. Thus, it is virtually impossible for people previously living in the urban renewal area to move back in. There is the possibility that some sort of a filtering process will take place; that is, as people with higher incomes move into the urban renewal areas they will

leave middle-income apartments; then people will move into these vacated middle-income apartments leaving low-income apartments, which the displaced urban renewalites can pick up. However, it is uncertain as to how effectively this process actually works, and, in any event, a considerable amount of time is involved. The net result is a decrease in low-rent housing and an increase in high-rent housing, a phenomenon which is accentuated by the long time lags inherent in the federal urban renewal process.

Another reason why time is relevant has to do with the justification of the program itself. Presumedly, the purpose of urban renewal is to attack a specific problem that currently exists. But if the program takes 10, 12, or even 20 years to complete, it is likely that the basic conditions the program was intended to alleviate will change. Back in 1940 who foresaw the fantastic advances in housing which took place during the next 20 years? In 1950, who predicted that the supply of standard dwelling units in the United States would increase 63 per cent by 1960—an absolute increase of 18.3 million units? Can anyone afford to ignore the rapid changes in housing conditions that are taking place when setting up a project whose results will probably not blossom for another 10 or 20 years? Obviously not. The acknowledgment of this leads to a very serious question: Are the principles of federal urban renewal, which were established to meet conditions existing before 1950, valid today? An even more serious question is whether or not they will be valid in 1970 or 1980. For these reasons we should understand clearly how much time it really takes to complete an urban renewal project.

It is difficult to calculate precisely how much time it takes to complete an urban renewal project because the program has been in existence for a relatively short length of time. True, it has been around since 1949, but because the typical project takes so long to complete, very few projects have actually been finished. For this reason it will be necessary to rely on estimates. The results will be, in most cases, predictions of what will probably happen, and as such are subject to the qualifications associated with any estimates of the future. However, although the

estimates are imprecise, the total picture they convey is clear and very likely to be of the right order of magnitude.

In order to make it easier to understand what is involved, I have divided the urban renewal process into two stages: the planning stage and the action stage. The planning stage contains all those activities necessary before any actual steps can be taken toward carrying out the project. The major activities involved in planning an urban renewal project are

1. Determining the area that will be included in the project.
2. Determining whether or not the project is eligible under existing federal, state, and local laws.
3. Preparing detailed project plans, cost estimates, and time schedules.
4. Estimating whether or not the project is economically justifiable, that is, do the expected benefits exceed the estimated costs?

The action stage involves carrying out the plans made in the planning stage. The major activities are

1. Acquiring the land and buildings by negotiation or the force of eminent domain.
2. Evicting and relocating the people living in the area marked for renewal.
3. Demolishing the buildings and clearing away the rubble.
4. Improving the area by building streets and sewers, and installing such things as street lights.
5. Building public facilities such as parks, schools, and libraries.
6. Selling the cleared land to private developers by negotiation or sealed bids.
7. Constructing new buildings for private residential, commercial, and industrial use (during this time some public housing may also be put up).
8. Rehabilitating some of the existing buildings.

These activities take place in roughly the order in which they are listed, but many of them overlap in time. For example, some

new construction may be started even though all the land has not been sold, or even cleared for that matter. In some projects certain kinds of activities do not play an important part and in other projects may not even exist. The rehabilitation of existing buildings constitutes the bulk of a few projects, but most projects do not include it at all. Thus, in speaking about the average planning time or the average execution time of a project, we are really talking about the average of a great many diverse projects; the averages are valid only insofar as they give us a clear idea of what is generally happening in projects throughout the United States.

The Planning Stage

In this section we shall take a look at how long it takes to plan an urban renewal project and how this planning time is affected by the size of the project. We will also examine the effect that increased knowledge about how the program works has had on the length of the planning stage.

In March of 1961 there were 958 active urban renewal projects in which planning had either been finished or was in progress. Planning had been completed in slightly over half of the active projects — it was complete in 491 projects and still in progress in 467 projects.[1] Let us first take a look at what actually happened in the 491 projects that have already completed planning activities. The dates for the start of planning and the completion of planning were taken from the official Urban Renewal Project Directory, and the length of the planning period was computed by simply subtracting the starting date from the completion date. As might be expected, the length of the planning stage varied considerably; in fact, one project in California took almost ten years to plan!

The average length of the planning time is surprisingly high — almost two years and eleven months. And this average planning time of close to three years is on the low side, because I have included only projects for which the planning has been finished. Projects that have been engaged in planning activities for a long

time but for which the planning is still incomplete have been left out of the average. This, of course, tends to make the average appear lower than it is.

Can we correct for this? Not completely, but we can get a truer picture if we confine the analysis to projects started in earlier years, which are much more likely to have their planning complete. In fact, if we examine all projects started during any given year and compute the percentage of the projects in which all planning is finished, we shall find that the percentage with planning complete is very high for projects started early in the program and declines sharply as we advance to the projects which were started most recently. Thus we could get a better idea of the average planning time if we used only projects started during the earlier years. Virtually all of the projects started before 1957 had their planning completed by March of 1961. The average length of the planning time for these projects was approximately three years and five months — about six months longer than our previous average. This average was computed from 355 projects.

For 25 projects started between 1950 and 1956 the reported starting date of planning was the same as the reported starting date of execution. These projects too were left out of the average, because there was no practical way to determine planning times for them. Leaving them out does not affect the average very much; if we make the extreme assumption that these 25 projects actually took no time at all to plan, the over-all average would decline only from three years and five months to three years and two months.

As people have become more experienced with the federal urban renewal program or have benefited from the experience of others, they have been able to plan more efficiently, in less time. This trend shows up when projects are grouped by the year the planning was started, and when the average planning time for each group is calculated. We discover, for example, that the average planning time for projects started in 1955 was less than for those started in, say, 1950. These results are plotted in Figure 5.1. An examination of this chart shows that planning time, on the average, has been decreasing but that this down-

ward trend is beginning to level out. This is a phenomenon noticeable in many types of new programs; at first large gains in efficiency are made fairly easily. As efficiency improves, it becomes more and more difficult to maintain the same relative gains.

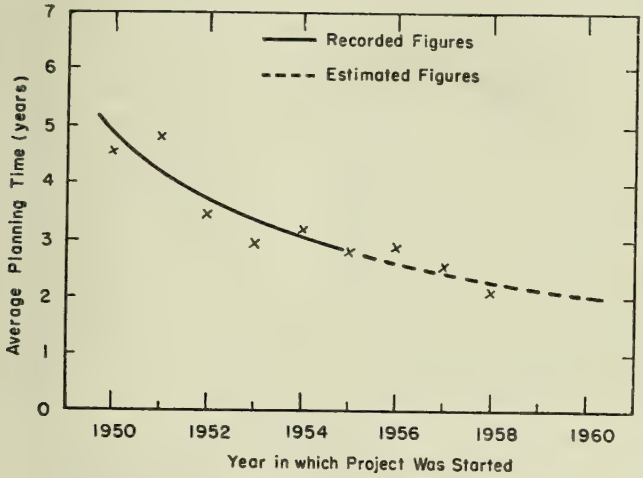


FIGURE 5.1 *Average planning time versus year project started.*

SOURCE: *Urban Renewal Project Directory*, Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., March 31, 1961; 365 projects reporting.

The averages shown for 1956, 1957, and 1958 include estimated planning times as well as actual planning times. It is more difficult to determine the average planning time for projects started after 1955 because, at the time of this study, few of them had completed the planning stage. However, a fairly high percentage of the projects started from 1956 to 1958 have completed planning, and for these projects it is possible to derive a fairly accurate estimate of their planning time. (See Table A.10 in Appendix A.) For projects started after 1958, the percentage of

completed projects was so low that any estimate would be quite uncertain. Because of this, the estimating procedure used will be confined to the years 1956, 1957, and 1958.[2]

Although the average planning time for a great many projects gives us a realistic idea of the length of time involved, we must

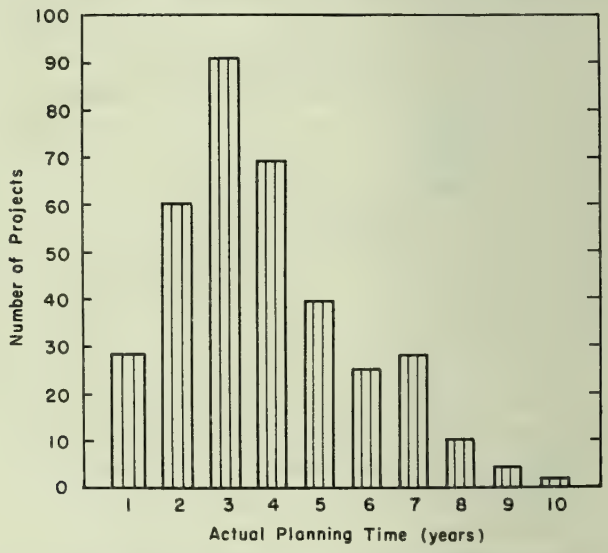


FIGURE 5.2 *Distribution of actual planning times for urban renewal projects — 1950 to 1956.*

SOURCE: Urban Renewal Project Directory, Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., March 31, 1961; 355 projects reporting.

also explore the distribution of these planning times if we are to have a clear grasp of the total situation. Do a few very bad projects raise the average so much that we are given a distorted view? Are some planning times more likely than others, or are they evenly distributed from a few months to nine or ten years? In order to answer these questions, a distribution of planning times for 355 projects was plotted in Figure 5.2. All projects

started after 1956 have been omitted to eliminate the downward bias of planning time averages that was spoken of earlier. The distribution is presented in bar graph form. Projects were grouped according to the number of years it took to plan them, and the chart shows how many projects fell into each group. The most common planning time was three years, with 91 projects falling in this group. The chart clearly shows a fairly even distribution, with the bulk of the projects taking between two and five years to plan. However, it should be noted that a significant proportion have taken over five years to reach the action stage. It seems doubtful that this amount of time should be required for technical planning. Therefore the primary reasons for the long delays are either political opposition, bureaucratic delays, or most likely some combination of the two.

It was also expected that the planning time should vary according to the size of the project. To find out whether this was true, projects were divided into three broad categories according to the amount of their estimated gross project cost. This is shown in Table 5.1. As was expected, it was found that the average

TABLE 5.1

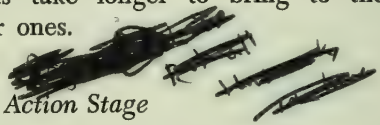
AVERAGE ESTIMATED PLANNING TIME AS A FUNCTION OF GROSS PROJECT COST

Gross Project Cost (millions of dollars)	*Number of Projects*	*Averaged Planning Time (in years)*
Under 1	141	2.58
1 to 10	284	3.26
Over 10	59	3.52

SOURCE: Urban Renewal Project Directory, Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., March 31, 1961.

planning time required for projects increased as the gross cost of the project increased. For projects costing under $1 million the average planning time was 2.58 years, for those costing between $1 million and $10 million the average planning time was 3.26 years, and for those costing over $10 million the average

planning time was 3.52 years. These averages show general trends; there was of course considerable variation in specific planning times within the three groups. Thus, it would not be possible to predict the planning time of an individual project from its estimated gross project cost with a great degree of confidence. But we can say that, generally speaking, larger projects take longer to bring to the action stage than do smaller ones.



The Action Stage

In the action stage the physical results of urban renewal are made dramatically evident. Whole communities of people are forced to disband and move, hundreds of buildings are destroyed by the wrecking ball, and eventually some new structures begin to nose upward. The action stage of the urban renewal process requires a much longer time to complete than the planning stage. Very few projects have actually been completed in spite of the fact that the federal urban renewal program has been in existence since 1949. The fact that so few projects have been completed makes it difficult to get an accurate idea of the average length of the time it takes to execute one; because of this it will be necessary to rely partially on estimates. Of course, if a project has been past the planning stage for say, five years, we can say with certainty that it will take at least five years to complete the action stage; the time remaining for completion must necessarily be an estimate.

Where will these estimates come from? Fortunately each local renewal agency is required to submit a report every three months concerning the status of the local project, and in that report the officials of the agency are asked to estimate the date when they expect the project to be completed.

Of the 423 projects reporting on March 31, 1961, 25 were completed and 398 were in the action stage. For the 25 projects completed, the actual execution time was computed; for the 398 projects still in the action stage, the estimated execution time was computed in the following way:

First, the actual length of time that the project had been in the action stage up to the reporting date was computed.
Second, the estimated time that it would take to finish the project was computed by using the local renewal agency's estimate of the completion date.
Third, the time already spent in the action stage and the local renewal agency's estimate of the time remaining were added to arrive at the total estimated time for completion of the action stage.

I should like to interject a note of caution here — an examination of the local renewal agency's estimates appears to indicate that most of the officials reporting are overoptimistic. Later, we shall discuss some ways that we might correct for this, but the present result is a downward biasing of the estimated times. Thus, the average times that were computed are very likely to be on the low side.

The average estimated length of the action stage was high — almost five years and four months, and this, it should be remembered, includes some highly optimistic forecasts by local urban renewal officials.

The estimated length of time required for the action stage varies widely among projects, ranging from a little over a year to almost 16 years. Although the average time of execution computed from 423 projects gives us a realistic idea of how much time is actually involved, it is still necessary to examine the distribution of these times to make sure that a few, unusually lengthy projects are not biasing the average and making it unreasonably high. The distribution for the estimated and actual execution times of the action stage is given in Figure 5.3. The most common estimated execution time is five years, and about three fourths of the projects had estimated execution times of from three to seven years. Very few were expected to be finished in less than three years, although quite a few were expected to take longer than seven years. Thus we can clearly see that a very long execution time is a general characteristic of the program, and the long average execution time is not caused by a few unusually bad projects.

Let us now examine how this average execution time has changed over the years, and then go on to judge how much confidence we can reasonably place in the local renewal agency's estimate of the completion date. All the projects in the action stage, except those completed, were divided into eleven groups according to the year in which they began the action stage. The first group covers 1950, the next nine groups cover the years

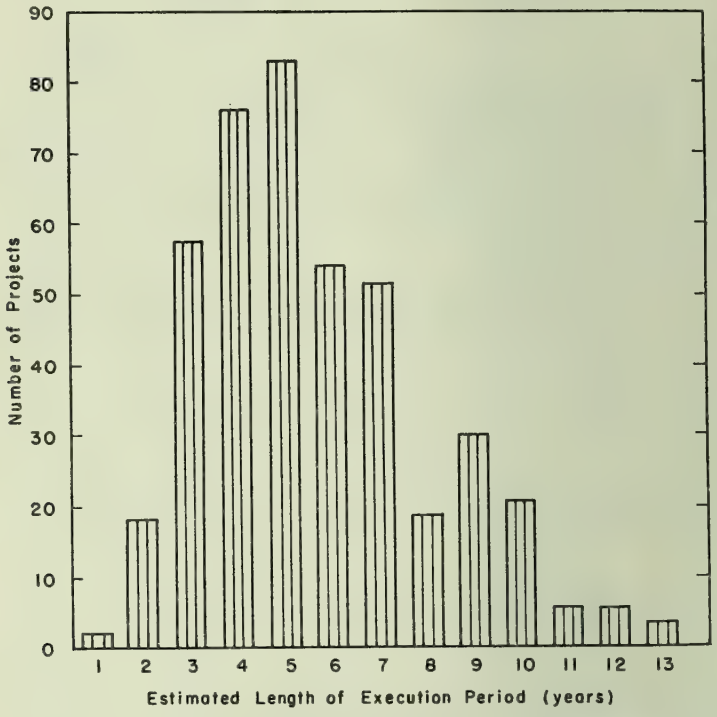


FIGURE 5.3 *Distribution of estimated execution times for urban renewal projects — 1961.*

SOURCE: Physical Progress Quarterly Reports (unpublished), Housing and Home Finance Agency, Urban Renewal Administration, Form H-6000, Washington 25, D. C., March 31, 1961; 423 projects reporting.

from 1952 through 1960 (no projects entered the action stage during 1951), and the last group covers the first quarter of 1961. Two averages were then computed for each group: first, the average time that the projects had actually been in the execution stage up to the reporting date in March 1961, and second, the average estimated time to completion. This is summarized in Table 5.2 in columns 3 and 4. By adding these two averages

TABLE 5.2

BREAKDOWN OF ACTUAL, ESTIMATED, AND MODIFIED ESTIMATE OF EXECUTION TIMES BY YEAR EXECUTION STARTED (*in years*)

(1) *Year Execution Started*	(2) *Number of Projects*	(3) *Average Actual Execution Time*	(4) *Average Estimated Time to Completion*	(5) *Average Total Execution Time (estimated plus actual)*	(6) *Modified Estimate of Average Execution Time*
1950	4	10.8	1.8	12.6	12.7
1952	11	8.7	1.1	9.8	10.6
1953	10	7.8	1.7	9.5	10.5
1954	12	6.7	1.8	8.5	9.8
1955	16	5.8	1.9	7.7	9.7
1956	20	4.8	1.9	6.7	9.3
1957	49	3.7	1.8	5.5	8.8
1958	74	2.8	2.3	5.1	8.4
1959	95	1.7	2.8	4.5	8.1
1960	87	0.8	3.2	4.0	7.8
1961*	11	0.1	3.7	3.8	7.7

* First Quarter.

SOURCES: Urban Renewal Project Characteristics and *Physical Progress Quarterly Reports* (unpublished), Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C. March 31, 1961.

together — the average actual execution time and the average estimated time to completion — we get the expected average time that it will take to complete the action stage; this is given in column 5 of Table 5.2. Notice carefully that the total execution time decreases very rapidly for projects started in later years,

dropping from 12.6 to 3.8 years. Is this reasonable or is most of it attributable to the optimism of the local renewal officials?

An examination of the estimated average time required to complete a project forces us to conclude that local officials have probably been overly optimistic. The average actual execution time is, of course, directly proportional to the year in which execution was started. However, the average estimated time to completion as shown in column 4 in Table 5.2 remains suspiciously constant until we get to the projects that were started in 1958. For projects that started the action stage prior to 1958, the average length of time remaining is estimated at slightly less than two years, regardless of the year during which the action started. From 1958 on, the estimated time to completion increases by about six months each year. It thus appears that local officials have a strong tendency to underestimate the time that it will take to complete the projects — for projects that have been going for three or more years, there appears to be an inclination to estimate that things will be finished in less than two years; for those which have been going on less than three years, things are expected to take a little longer.

It is reasonable to expect a decrease in the time it takes to complete the action stage of a project as the program gets older and experience with urban renewal builds up, but the sharp decrease depicted in Table 5.2 leaves one with the impression that perhaps the reported decrease is too high. In an attempt to correct for any overoptimism on the part of the local renewal officials, the following technique was used. It was first assumed that, in fact, there had been no decrease in the average project execution time since 1950, that is, that projects would take approximately 12.6 years to complete. Let us call this the overpessimistic viewpoint, whereas the 3.8-year average is the overoptimistic viewpoint. It is likely that the true answer lies somewhere between these two extremes, but exactly where it is difficult to say. It was arbitrarily assumed that a reasonable estimate would lie half way between these two extremes. The individual project estimates of the remaining time required for execution were modified according to this assumption.[3] Using

these modified estimates of the time required to finish the projects increased the expected total execution time to about eight years and six months. These modified estimates of the total time required are given in column 6 of Table 5.2. As can be seen, the average execution time has been decreasing steadily, and is now somewhere around eight years. It will probably continue to decrease slightly as experience with the program grows, but it is very likely to remain of this order of magnitude, say six to eight years.

The size of the urban renewal project affects the length of time it takes to complete it. Using gross project cost as an indicator of a project's size, the total number of projects was divided into thirteen groups. Each group represents projects of a particular size; the gross project cost associated with each group is shown in Table 5.3. The average estimated time for

TABLE 5.3

AVERAGE ESTIMATED EXECUTION TIME AS A FUNCTION OF GROSS PROJECT COST

Group	*Amount of Gross Project Cost (millions of dollars)*	*Number of Projects*	*Averaged Estimated Execution Time (in years)*
1	0 to 0.5	53	3.83
2	0.5 to 1.0	51	4.60
3	1.0 to 1.5	49	4.83
4	1.5 to 2.0	36	5.19
5	2.0 to 2.5	26	5.23
6	2.5 to 3.0	27	4.91
7	3 to 4	38	5.42
8	4 to 5	24	5.86
9	5 to 6	24	6.53
10	6 to 8	22	6.33
11	8 to 11	22	6.56
12	11 to 18	24	6.23
13	18 to 112	24	7.28

SOURCES: Urban Renewal Project Characteristics and *Physical Progress Quarterly Reports* (unpublished), Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., March 31, 1961.

execution was computed for the projects in each group and is tabulated in the last column in Table 5.3; note that there is a generally consistent upward trend in estimated execution time as the size of the projects increase. Small projects of less than half a million dollars averaged slightly less than four years; projects costing from a half a million to three million dollars averaged around five years; projects costing from three to $18 million had estimated execution times from five and one-half to six and one-half years; and very large projects with costs ranging from $18 to $112 million had times well over seven years. Thus, there is little question that the execution time of an urban renewal project is directly related to the scope of the project; larger projects take longer to execute.

Now we are ready to combine the time it takes to plan a project and the time it takes to execute a project to develop an estimate of the total amount of time usually involved in moving an urban renewal project from the start of planning to the completion of the last piece of construction. As you have probably surmised by now this involves quite a number of years; in fact, the total amount of time involved in a typical urban renewal project is just under *12 years!*

The length of the period from the start of project planning to the completion of all of the construction can be determined by simply adding the planning time to the execution time. To distinguish the total time from either the planning or the execution time I have called it the gestation period, defined as the total amount of time that it takes to complete all activities in an urban renewal project. For the 423 projects that had completed all planning activities, the modified estimate of the execution time (in 25 projects the actual execution time) was added to the time that it took to plan the project; the result was the gestation period of the project.

The distribution of the gestation periods for these 423 projects is shown in Figure 5.4. The gestation periods range from one to twenty years, with the bulk of them lying between seven and fifteen years. The average estimated gestation period for these 423 projects was just under 12 years — 11.9 years to be exact.

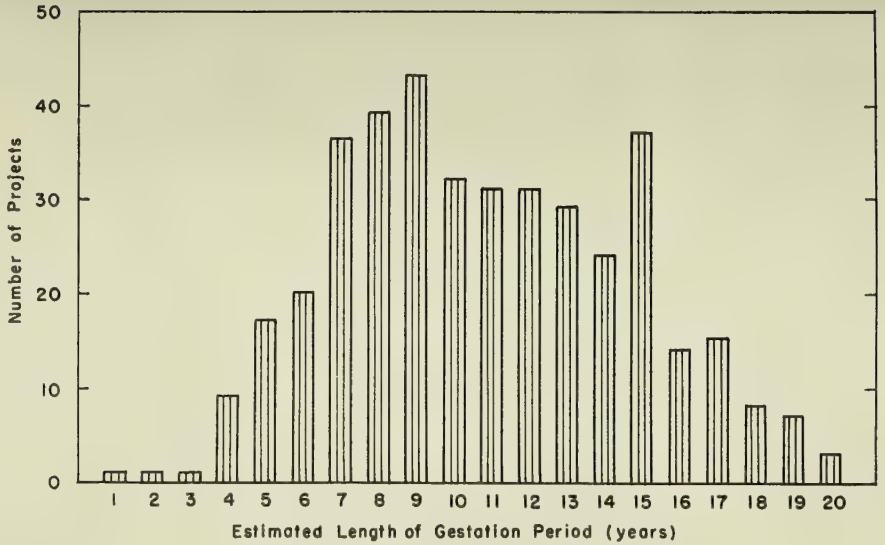


FIGURE 5.4 *Distribution of adjusted estimates of gestation time for urban renewal projects — 1961.*

SOURCE: Urban Renewal Project Characteristics and *Physical Progress Quarterly Reports* (unpublished), Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., March 31, 1961; 398 projects reporting. (Reported figures have been adjusted.)

Of this total time, approximately 3.4 years was spent in planning and about 8.5 years in execution. Note however that these estimates are based upon projects which were started before March of 1961. As urban renewal officials and city planners become more acquainted with the methods of urban renewal, it is likely that this time will be decreased. How much? This is subject to conjecture, and no precise estimate can be made. I personally feel, however, that it is doubtful if the gestation period will fall below ten years for a typical urban renewal project, unless, of course, some more drastic governmental decrees are passed and enforced.

It is apparent that the federal urban renewal program is no quick and easy cure for the supposedly ill city. The estimated time lag between the start of planning and the completion of all new construction for a typical urban renewal project has been approximately 12 years. As a result of this, over 97 per cent of all the projects initiated during the time prior to March of 1961 have not been finished. If the urban renewal process continues to be as slow as this, it will be decades before the current projects are completed. It is important that federal, state, and local government officials and others associated with urban renewal recognize and face up to the slowness of the program. The entire basis upon which a project is initiated may have changed substantially or wholly by the time the project nears completion; for the program to be effective it must be flexible and ready to adapt to changing conditions. Public officials should be acutely aware of the changing needs of urban renewal and be ready to modify their programs accordingly. Unless this is done quickly and effectively, the long time lags inherent in the process may well prove to be the destruction of the entire federal urban renewal program.

Chapter Five Notes

[1] *Physical Progress Quarterly Reports* (unpublished), Urban Renewal Administration, Form H-6000, Washington 25, D. C., March 31, 1961.

[2] See research note 2 in Appendix B.

[3] See research note 3 in Appendix B.

CHAPTER SIX

THE NEW BUILDINGS

> . . . The pleasure of planned construction is one of the most powerful motives in men who combine intelligence with energy; whatever can be constructed according to a plan, such man will endeavor to construct . . . the desire to create is not in itself idealistic since it is a form of the love of power, and while the power to create exists there will be men desirous of using this power even if unaided nature would produce a better result than any that can be brought about by deliberate intention.
>
> Bertrand Russell

The federal urban renewal program is essentially an attempt to change existing land-use patterns within cities into new, different land-use patterns that some persons feel are more desirable from their viewpoint of the public good. Basically this is accomplished by purchasing real estate, destroying it, and then selling the land to a private developer who erects buildings that meet the approval of the officials of the local renewal agency and others involved in the project. Rehabilitation of existing buildings also occurs although the amount of it to date has been quite small. The construction of the new buildings in former slum areas creates a dramatic effect and is probably the most satisfying part of the whole urban renewal process. These buildings symbolize the progress of the urban renewal program, and in most cases they are the main justification for it. The city plan-

ners, the mayors, the urban renewal officials, and others connected with urban renewal can all point their fingers toward the material masses rising skyward and say, "Look, I helped destroy the slum and build that."

All other things being equal, bright, new buildings are preferable to shabby, old buildings, but in urban renewal all other things are not equal. Before we can say unequivocally that these new buildings are desirable, it is necessary to know what kind of buildings are going up and how much they cost. In brief, new buildings are the symbol of urban renewal, and they will tell us a great deal about the character of the federal urban renewal program.

The government publishes statistics about the amount of construction that is planned for urban renewal areas, but up to now, they have not published any figures pertaining to the amounts of construction actually started or finished. It is very difficult to evaluate the program by looking at estimates of planned construction because people in charge of programs of this type are often quite optimistic in their predictions of how much will be built and when it will be finished.

The data on the actual amount of construction started that are presented here were developed from the raw files of the Urban Renewal Administration in Washington, D. C. Although reluctant at first, the officials of the Urban Renewal Administration finally agreed to permit the data to be abstracted from the quarterly reports sent in by local renewal agencies all over the country.

The progress reports give the local renewal agencies' best current estimates of the amount of construction that has been started, and of the amount of construction that eventually will be built within the project area. The reports used as the basis for this data were those submitted as of March 31, 1961.[1]

The amount of new construction started within urban renewal areas has been fairly substantial in absolute terms. By the end of March 1961, approximately $824 million of new construction of all types had been started. More than $3 billion worth of new construction was in the planning stage.

Ostensibly the program seeks to provide a better home and

living environment for all American citizens. What kind of construction has been started in an attempt to pursue these goals? As of March 31, 1961, approximately 56 per cent of the total value of new construction was devoted to private residential housing. New housing is expensive to build, especially in cities, and, unless other taxpayers pay a substantial part of the rent bill, it is impossible for all but a minute fraction of those people displaced by urban renewal to move back into their old neighborhoods. Privately owned housing is not built for altruistic purposes; it is built with the hope of making a profit. Thus, we can reasonably conclude that virtually all of this new, privately owned construction is destined for a completely different group of people than those who originally lived in the urban renewal area.

Six per cent of the total construction started was devoted to publicly subsidized housing. These buildings did not cost much less than the privately owned ones, but the government pays a substantial part of the rent bill, and thus these apartments could be afforded by many of those who were eligible for them.

The remaining 38 per cent of the construction was devoted to nonhousing uses. This means that only 62 per cent of the value of the new construction within urban renewal areas was devoted to housing, and over 90 per cent of the new housing built commanded monthly rents that could be afforded by only the tiniest fraction of those displaced. This conclusively proves that, whereas one of the prime purposes of urban renewal is to improve housing conditions for all income groups, in reality it improves housing conditions for the high-income groups and lowers them for the low-income groups. In effect, the federal urban renewal program makes it possible for local renewal officials to create a new neighborhood of an entirely different "character" than that of the old neighborhood. This is done by evicting people with relatively low incomes and replacing them with people from higher income groups. William Slayton, Commissioner of the Urban Renewal Administration, recently stated:

> In reviewing our wornout slum areas, it is essential to establish a new *character* [my italics] . . . . We must keep in mind what

> Housing Administrator Robert C. Weaver recently said: "We are concerned not simply with building and investment. It is what we build, where we build, and for whom we build that is important."[2]

The decision as to what is built, where it is built, and for whom it is built must necessarily reside in the hands of thousands of government officials throughout the country. Within the urban renewal area these decisions are made by public officials, even though most of the construction is privately owned.

A substantial amount of nonhousing construction has also been started. Approximately 24 per cent of the total was devoted to public works, such as parks, schools, libraries, roads, sewerage systems, and other public facilities. Thus, a major segment of urban renewal construction consists of public facilities and other site improvements, most of which will be enjoyed by those who are able and willing to move into the newly redevolped area.

Private businessmen so far have invested relatively little money in new construction on urban renewal sites in spite of the exhortations of federal and local officials for them to do so. Only 14 per cent of the total construction started was done so by business interests; commercial buildings accounted for 10 per cent, and industrial buildings for only 4 per cent. Perhaps one of the main reasons for this is that federal financing is not available for commercial and industrial ventures, and thus any commercial or industrial building has to justify itself economically on its own merits to a private lender.

The question of who pays for the construction and what type of financing is available has a great deal to do with the kind of construction that is started. Urban renewal construction can be divided into three major categories showing who pays and who provides the financing. The first category is *public construction* — if the entire use of the public facility comes from the urban renewal area, two thirds, or in some cases three fourths, of the total cost is paid for by the federal government. If only a part of its use comes from the urban renewal area, the federal share is scaled down accordingly. The rest of the cost of public construction is paid for by the state and local governments. The second category is *publicly financed private construction* —

approximately 43 per cent of all privately owned housing construction in urban renewal areas has been financed by long-term (40 year) loans from the federal government. The third category is *privately financed private construction* — all of this construction, housing, commercial, and industrial is financed by private lending institutions.

The breakdown of urban renewal construction that has been started, cumulative from the beginning of the program in 1949 to March 31, 1961, is given in Figure 6.1. A more detailed breakdown is given in Table A.11 in Appendix A.

So far, most of the construction activity has been concentrated in a few states. New York State alone accounts for 32.4 per cent of all construction activity to date, and virtually all of this has taken place in New York City. Most of the remaining two thirds has taken place in fifteen other states with amounts started ranging from $69 million in Pennsylvania down to $14 million in Alabama. Twenty-three other states had relatively insignificant amounts started; for all twenty-three of these states the total was only $19 million, an average of less than $1 million per state. In the eleven remaining states no construction at all had been started. Thus, less than one third of all the states accounted for 97.6 per cent of the total amount of construction started. As could be expected, urban renewal construction is concentrated in those states which contain large cities. (See Table 6.1)

Construction activity was slow during the first few years of the federal urban renewal program. Virtually no construction was started during 1950 and 1951. As the program evolved, construction activity increased: $36 million of construction was started in 1952, followed by $86 million in 1953. The amount of construction started in 1954 decreased by $19 million, and for the next two years construction activity was relatively small: $49 million in 1955 and $50 million in 1956. Construction activity increased sharply in 1957, as $157 million of new construction was started. Activity moved even higher in 1958 when over $172 million of construction was started. The 1958 figure marked the peak of the annual amount of construction started in urban renewal areas. From 1959 to 1961 construction activity *declined.*

In 1959 the value of construction started fell to $118 million, and in 1960, slightly over $17 million of construction was started. Even after making allowances for the fact that these figures are estimates, it is reasonably certain that there was a downward trend in urban renewal construction activity from 1958 to 1961.

However, it does not seem reasonable to assume that this downward trend will continue. The rapidly increasing scope of

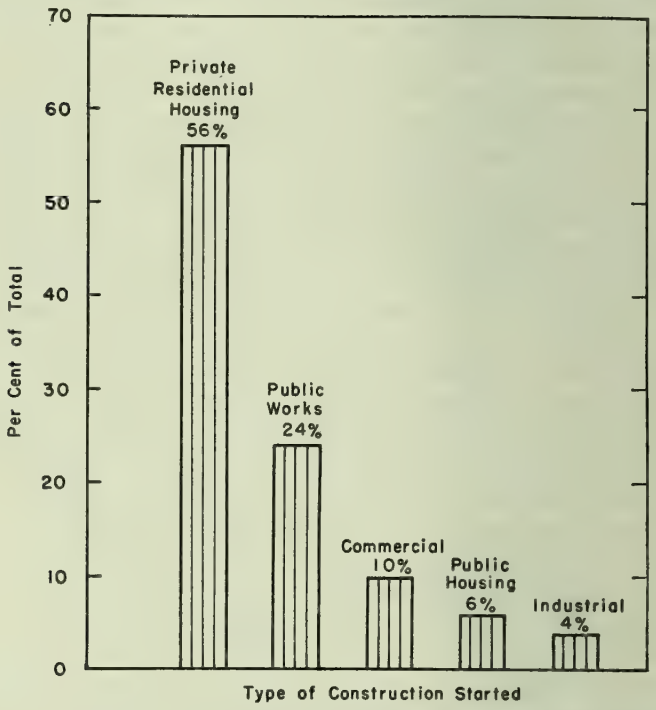


FIGURE 6.1 *Breakdown of urban renewal construction started — total estimated amount started from beginning of program to March 31, 1961 is $824 million.*

SOURCE: Physical Progress Quarterly Reports (unpublished), Housing and Home Finance Agency, Urban Renewal Administration, Form H-6000, Washington 25, D. C., March 31, 1961; 191 projects reporting.

the program should provide a strong stimulus to new construction in the near future. However, the downward trend from 1958 to 1961 raises some serious questions. Why did the initiation of urban renewal construction decline during one of the most rapid

TABLE 6.1

VALUE OF ALL URBAN RENEWAL CONSTRUCTION STARTED BY STATE — 1950 TO MARCH 1961 (*millions of dollars*)

State	Rank by Amount Started	Amount Started	Cumulative Amount Started	Per Cent of Total	Cumulative Per Cent of Total
New York	1	$267	$267	32.4	32.4
Pennsylvania	2	69	336	8.4	40.7
Illinois	3	67	403	8.1	48.9
Virginia	4	55	458	6.7	55.5
Connecticut	5	48	506	5.8	61.4
New Jersey	6	42	548	5.1	66.5
California	7	40	588	4.9	71.3
Minnesota	8	37	625	4.5	75.8
Maryland	9	30	655	3.6	79.4
District of Columbia	10	29	684	3.5	83.0
Missouri	11	25	709	3.0	86.0
Tennessee	12	23	732	2.8	88.8
Michigan	13	21	753	2.5	91.3
Massachusetts	14	19	772	2.3	93.6
Ohio	15	19	791	2.3	95.9
Alabama	16	14	805	1.7	97.6
(23 other states)	17-39	19	824	2.3	100.0
(11 remaining states)	40-50	—	824	—	100.0
TOTAL		$824	$824	100.0	100.0

SOURCE: Physical Progress Quarterly Reports (unpublished), Urban Renewal Administration, Housing and Home Finance Agency, Form H-6000, March 31, 1961 (191 projects); FHA Division of Research and Statistics, March 31, 1961.

periods of growth of the program? If the same factors that retarded new construction during this period are present in the future, what implications will this have for the course of new construction? Before attempting to answer these questions it will

be useful to examine in more detail the types of construction already started.

The estimated annual amounts of urban renewal construction started were broken down into two major categories:

1. The amount of publicly owned construction.
2. The amount of privately owned construction.

Approximately 70 per cent of the estimated total started was privately owned. The remaining 30 per cent was publicly owned. These amounts are shown in Table 6.2.

An examination of this table reveals that the trend of public construction differs significantly from the trend of private con-

TABLE 6.2

URBAN RENEWAL CONSTRUCTION ACTIVITY, 1950 TO 1961 — ESTIMATED ANNUAL AMOUNTS OF PUBLIC AND PRIVATE CONSTRUCTION STARTED (*millions of dollars*)

Year	*Amount of Public Construction Started*	*Amount of Private Construction Started*	*Total Amount of Construction Started*
1950	$ 2	$ —	$ 2
1951	5	—	5
1952	13	23	36
1953	11	75	86
1954	11	8	19
1955	5	44	49
1956	10	40	50
1957	26	131	157
1958	50	122	172
1959	50	68	118
1960	52	61	113
1961*	12	5	17
TOTAL	$247	$577	$824

* First Quarter.

SOURCE: Physical Progress Quarterly Reports (unpublished), Urban Renewal Administration, Housing and Home Finance Agency, Form H-6000, Washington 25, D. C., March 31, 1961. Estimates derived from 191 projects reporting construction started.

struction. From 1950 to 1956, public construction in urban renewal areas averaged $8 million per year. In 1957 it was $26 million. From 1958 through 1960, the amount of public construction begun averaged $51 million per year. Based on the amount started in the first quarter of 1961, it is estimated that over $50 million will be started in 1961. Public construction activity in urban renewal areas was characterized by a long initial period of low construction activity up to 1956, a substantial increase from 1956 to 1958, and a relatively high, constant amount of activity from 1958 through 1961.

The time pattern of private construction activity differed considerably as shown in Figure 6.2. After two years of inactivity

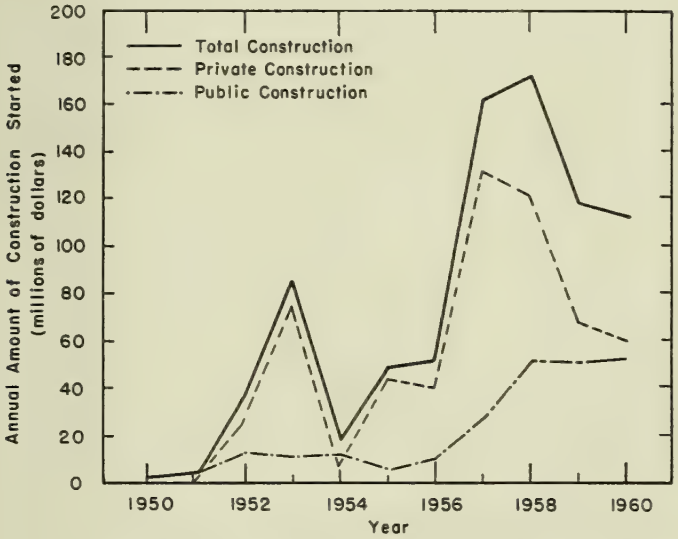


FIGURE 6.2 *Annual amounts of urban renewal construction started in the United States from 1950 to 1960.*

SOURCE: Physical Progress Quarterly Reports (unpublished), Housing and Home Finance Agency, Urban Renewal Administration, Form H-6000, Washington 25, D. C., March 31, 1961; estimates derived from 191 projects reporting construction started.

during the initial phase of the program, the annual amount of private construction increased rapidly for two years, hitting a peak of $75 million in 1953. It then plunged to $8 million in 1954, picked up to $44 million in 1955 and slipped back slightly to $40 million in 1956. During the next two years there was a burst of private construction activity — $131 million in 1957 and $122 million in 1958. The $131 million of construction started in 1957 was the highest amount for any year to date. In 1959 the amount of private construction begun declined sharply to $68 million, and in 1960 it declined further to $61 million. During the first quarter of 1961 only $5 million was started.

Thus, the decline in over-all construction activity in urban renewal areas throughout the United States from 1958 to March 1961 was due entirely to a decline in private construction activity. Because of the large number of urban renewal projects that appear to be moving forward, this decline will almost surely be reversed in the near future.[3] However, an absolute decline in private construction activity during a period of time when the number of projects was growing rapidly is a clear indication that the program was not moving smoothly.

Most of the sharp increase in private construction activity in 1953 can be attributed to the amount started in New York City. During this time Robert Moses wielded considerable power over the urban renewal program of New York City, and he appears to have been primarily responsible for this burst of private construction activity. He was able to use all the influence, resulting from the important, appointed public offices he held, to persuade private and public interests to proceed rapidly. Usually the disposition of the land was arranged, before it was acquired, by negotiation or eminent domain.

The sharp jump in private construction activity in urban renewal areas throughout the country during 1956 and 1957 probably resulted from the introduction of direct federal financing of private urban renewal construction through the Federal National Mortgage Association (FNMA). A large amount of "potential" private construction was generated by the program from 1950 to 1955, but it appears that it did not materialize because

of the lack of available financing. Financing appears not to have been available because the lending institutions felt there was a high degree of risk attached to this type of construction. FNMA remedied this in late 1955, thus releasing the backlog of private residential construction.

During the period from 1958 to 1960, it appears that the Eisenhower Administration was becoming dissatisfied with the program and was scrutinizing each project carefully.[4] During this period the Commissioner of the Urban Renewal Administration, Mr. David Walker, made the following statement to a group of housing and redevelopment officials:

> If urban renewal becomes a program with public housing down at one end and luxury and semi-luxury housing down at the other, leaving out a whole gray area between, this program can go no place but into disrepute — and there it belongs.[5]

Practically all of the housing started under the federal urban renewal program has been of just the type specified by Mr. Walker. The fact that the federal urban renewal program produces small amounts of public housing and large amounts of luxury and semiluxury housing casts doubt on the validity of the program. Is this the purpose of urban renewal?

The apparent disenchantment of the Eisenhower Administration with the urban renewal program lead to a tightening up of urban renewal regulations. During this time the private redevelopers encountered many delays primarily caused by the slow processing of applications. At the same time it appears that some of the private developers themselves were becoming dissatisfied with the operation of the program. New Haven, Connecticut has often been called one of the outstanding examples of urban renewal in the United States. Mayor Lee of New Haven has made urban renewal the key plank in his campaign platform and up to now has achieved considerable success by doing so. The primary private developer is Roger Stevens, probably better known for his successful Broadway shows. However, in early 1962 both of them seemed to be entertaining some doubts about the program:

> Although Lee foresees a "spanking new and exciting" New Haven by 1965, he isn't planning to run again. Nor is Roger Stevens planning new redevelopment ventures (*"I'll never go into another one of these things."*)[6] [My italics.]

This lack of desire for urban renewal arises from many sources. First, financial institutions have been reluctant to lend money for projects in these areas, and understandably so — as of December 1962, over 27 per cent of the urban renewal apartment building mortgages in FNMA's portfolio were delinquent from one to six months. (See Table 8.4 in Chapter 8.) Political pressures and red tape have also slowed down the construction process in urban renewal areas.

> Developer Stevens . . . admits that political maneuvering caused costly delays. *"Some decisions about the Church Street project didn't make economic sense from the beginning,* but they were politically necessary."[7] [My italics.]

Generally speaking, urban renewal has not turned out to be as lucrative as was first believed — and redevelopers have been re-evaluating the program. This will be discussed in more detail in Chapter 7.

New York City alone has accounted for roughly 32 per cent of the urban renewal construction started. Because of the large effect that New York has on the total figures of the country, it was decided to eliminate New York City from the total summary in order to get a clearer idea of what has been happening in the rest of the nation (see Figure 6.3). In general, the experience of the rest of the United States is comparable to New York City's. The same pattern of increasing construction activity up to 1958 and then a sharp decline that was characteristic of the entire United States is also evident when New York City is omitted from the totals.[8]

According to the reports of 369 local renewal agencies on March 31, 1961, it was estimated that about $3,964 million of new construction would be built in these urban renewal areas.[9] The composition of planned construction differs significantly from the composition of construction already started. If the past record of actual construction activity in urban renewal areas

can be considered indicative of the future course of the program, these construction plans may have to be drastically revised. A breakdown of the estimated total cost of urban renewal construction reported by these 369 projects is presented in Table A.12 in Appendix A.

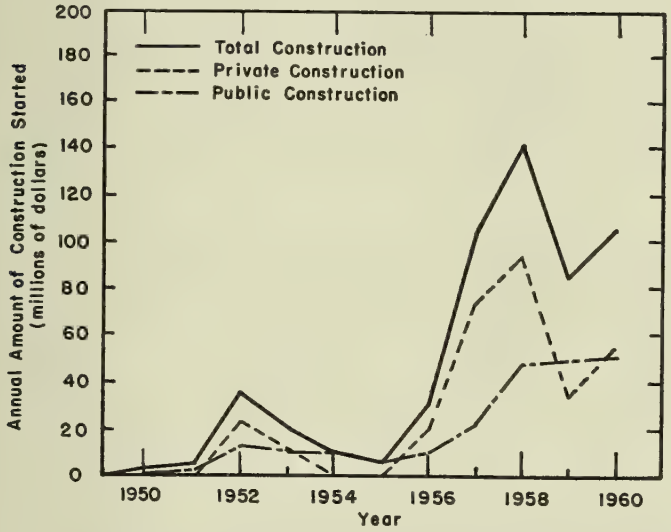


FIGURE 6.3 *Annual amounts of urban renewal construction started in the United States from 1950 to 1960 excluding New York City.*

SOURCE: Physical Progress Quarterly Reports (unpublished), Housing and Home Finance Agency, Urban Renewal Administration, Form H-6000, Washington 25, D. C., March 31, 1961.

The estimated value of all new construction includes the amount of construction already started. Of the $3,964 million of estimated new construction, $824 million or about 21 per cent has already been started, leaving 79 per cent still in the planning stage. Therefore, as of March 31, 1961, about $3,140 million of construction was in planning. (See Table A.13 in Appendix A.)

The relative amounts of the different kinds of construction planned are quite different from the relative amounts of the type of construction that has been started. The percentage breakdowns of planned and started construction by type are shown in Figure 6.4.

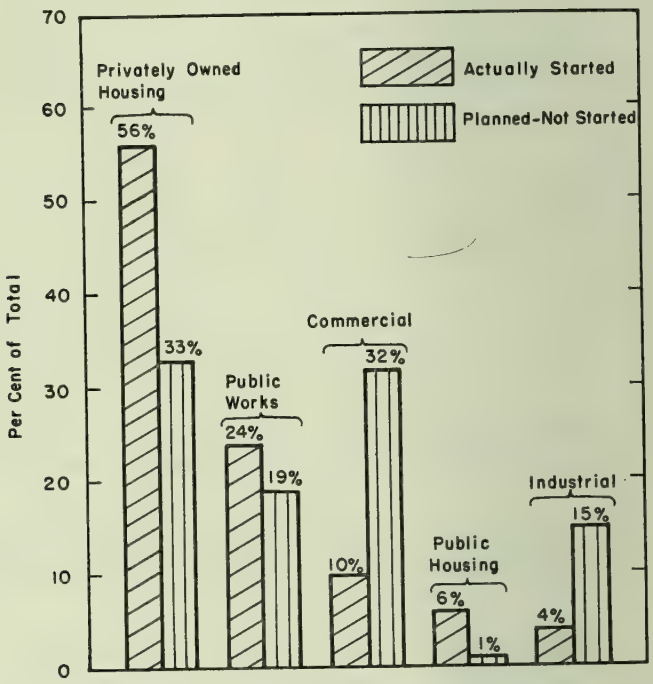


FIGURE 6.4 *Breakdown of urban renewal construction by type of construction — total amount actually started, $824 million; total amount planned but not started, $3,140 million. Cumulative from beginning of program to March 31, 1961.*

SOURCE: Physical Progress Quarterly Reports (unpublished), Housing and Home Finance Agency, Urban Renewal Administration, Form H-6000, Washington 25, D. C., March 31, 1961; 369 projects reporting.

So far (March 1961), 56 per cent of the construction started has been privately owned housing, yet only 33 per cent of the planned construction is expected to be in this category. Public works has accounted for 24 per cent of the amount started, but only 19 per cent of the planned construction is in this category. The discrepancy in the commercial construction category is very large; over three times as much is planned as was actually started. Commercial construction accounted for 10 per cent of the total started and is expected to constitute almost one third, or 32 per cent, of the planned construction. The same type of relationship holds for industrial construction. This category accounted for only 4 per cent of the amount started yet it is expected to take care of 15 per cent of the planned construction.

The public housing category has some interesting implications for the future course the federal urban renewal program is apt to take. It only accounted for 6 per cent of the actual amount started, but future plans indicate that it is expected to account for less than 1 per cent of the construction to be built.

There are two future possibilities: either the plans for new urban renewal construction will have to change or the past pattern of construction will be altered significantly. According to the plans of the urban renewal experts, a great deal more commercial and industrial construction will be forthcoming, with a corresponding relative reduction in the amounts of privately owned housing, public works, and public housing. It is possible that approximately 47 per cent of future urban renewal construction will be devoted to commercial industrial use, but the past record of the program indicates strongly that business interests will be slow to respond to the blandishments of proposed urban renewal sites. It seems more likely that local urban renewal officials, in their desire to "revitalize" their cities, have become overly optimistic in their projections.

Chapter Six Notes

[1] The author is solely responsible for the compilation and interpretation of the data pertaining to new construction activity. Any views and opinions expressed about new construction activity are the author's and should not

be interpreted as being official views and opinions of the Urban Renewal Administration. It should be kept in mind that the figures reported are derived from estimates of local renewal officials, and thus are subject to any uncertainty contained in the original government reports.

[2] Remarks by William L. Slayton, Commissioner, Urban Renewal Administration, Housing and Home Finance Agency, at the Conference on Urban Renewal and Housing presented by the Practicing Law Institute, Hotel Astor, New York, N. Y., June 21, 1962.

[3] There are indications that the amount of construction activity has increased significantly since the time that this study was made. However, data on new construction activity is not publicly available at present, and it was not feasible to attempt to redo the entire study in order to update the data.

[4] Interview with Professor Chester Rapkin, University of Pennsylvania, April 1962.

[5] Mr. David Walker, Commissioner, Urban Renewal Administration, before the Potomac Chapter of the National Association of Housing and Redevelopment Officials, October 1, 1959.

[6] "City Face-Lifting — New Haven [Connecticut] Points Up the Problems of Redevelopment," *Wall Street Journal*, January 17, 1962.

[7] *Ibid.*

[8] It is interesting to note that there appears to be an upturn in urban renewal construction activity just before each presidential election — see 1952, 1956, and 1960.

[9] These reports reflect the estimates of the local urban renewal officials. For 191 of the 369 local renewal agencies reporting, the amount of planned construction reported also includes the amount of construction that had already been started as of the reporting date.

CHAPTER SEVEN

THE PRIVATE DEVELOPER

Oft expectation fails,
and most oft there
Where most it promises.

Shakespeare

The private developer is an essential link in the urban renewal process. Most of the cleared land in urban renewal areas is intended to be used for private construction, and unless private developers are willing to undertake this work, the project, for all practical purposes, collapses. Under the present setup of the federal urban renewal program, private developers are vitally necessary to make the final stage of urban renewal work.

When private developers first analyzed the profit potential of the program, it appeared that they could do well. Their initial investment would be relatively small, and they expected to get their own money back out of the project in a short time. In addition they anticipated owning well-located urban properties that would probably appreciate in value over time, while producing an annual operating income sufficient to cover operating expenses and a reasonable return on invested capital. Later they anticipated selling the property for its appreciated value. Hopefully, this would produce a substantial capital gain for the private developer.

Because of these attractive inducements, private developers

were fairly optimistic during the early stages of the federal urban renewal program. However, the past experience of private developers indicates that urban renewal has not been as profitable or as easy to carry out as they originally expected it to be. The whole program has been slow in producing tangible results, and so far the tantalizingly high profits are still on paper. According to one active private developer:

> Urban renewal being what it is, this has been a field in which, to date, I have done a good amount of planting, but relatively little harvesting. My conversations with other redevelopers indicate that this is by no means a unique experience. Yet, if we, as redevelopers are to continue to sow, soon we shall have to reap, or one must be off to greener fields.[1]

Most of the redevelopers are real estate speculators, intent on building, leasing, and selling large real estate complexes with the primary purpose of making money. Some of the developers who have played a large part in the development of the program are William Zeckendorf, Herbert Greenwald, James Scheuer, Marvin Gilman, and Roger Stevens. Zeckendorf has probably been the single most important developer in the urban renewal field, with many projects, most of which are in New York, Washington, D. C., and Chicago. Scheuer, a New York developer, has projects in Cleveland, Washington, D. C., and Puerto Rico. Stevens, a commercial realtor and theatrical producer, was the sponsor of the urban renewal project in New Haven, Connecticut. Gilman, a lawyer from New York, has recently undertaken a large project in Baltimore. Such men are the entrepreneurs of urban renewal. Operating with relatively small, competent staffs, they seek out projects in all parts of the country. These men are usually quite flexible in their business operations, and it is difficult to predict how long they will maintain their interest in urban renewal and how deep their commitment will be. For example, in recent years Mr. Zeckendorf has sold off most of his urban renewal interests to other investors. In this particular case the buyer was a very large manufacturer of aluminum products, the Aluminum Company of America.

The entry of large corporations into the urban renewal field

is a more recent phenomenon. Today large companies, such as Reynolds Aluminum and Alcoa, are deeply involved in the federal urban renewal program. Probably the best example of this type of developer is the Reynolds Aluminum Company. Reynolds is interested in urban renewal for the following reasons:

1. It affords the company an opportunity to sell its aluminum products.
2. It provides a showplace of the variety of uses to which aluminum can be put in housing (Reynolds considers that a renewal area provides a very effective advertising potential).
3. It permits the company to experiment with the use of aluminum in housing.
4. It promises a good profit.[2]

Other developers are academic institutions that wish to expand their facilities and improve the quality of their environment. The Massachusetts Institute of Technology, for example, is cosponsor of a large research center, called Technology Square, in Cambridge, Massachusetts. The land needed was acquired through the urban renewal program. Other large universities, such as the University of Chicago, the University of Pennsylvania, and Columbia University have also attempted to make use of the federal urban renewal program in an effort to acquire surrounding land and to improve their environment.

There are also a few nonprofit redevelopers whose objectives are primarily social rather than economic. They usually take advantage of the liberal federal financing available to nonprofit corporations, and attempt to build low-cost housing. Some labor unions, for example, have used this financing to build housing for their members.

The Decision To Go into Urban Renewal

The private developer operating within the federal urban renewal program must analyze and evaluate more factors than when he is operating in the private sphere. So far the additional problems have been numerous and their solutions have been

difficult and time-consuming. According to a group of lawyers intimately connected with urban renewal:

> The problems have seemed so great and the pitfalls so deep that many experienced real estate men have been unwilling to bid for sponsorship of urban renewal redevelopment projects, even in their home cities. . . . No segment of the field of real estate development involves contact with so many public agencies — federal, state and local.[3]

A developer operating independently has a great deal to say about the design, type, and location of the buildings he is constructing. This is not true of private developers operating within the framework of the federal urban renewal program. The type of the building and the design of the building are subject to approval by the officials of the local renewal agency.

The design and type of buildings embodied in the plan the developer submits to the local renewal agency have an important bearing on whether or not he gets the project. And the planning of imaginative projects that will satisfy these officials takes time and money. By the time the design competition occurs, the private developer has incurred expenses that may amount to as much as $20,000 for a small project, and $75,000 or more for a large one.[4] If the redeveloper secured only one out of every five jobs he bid on, this one job must support the development expenses incurred on the unsuccessful bids. Under these circumstances the expenses could range easily from $100,000 to $375,000.

Once the bid is secured, the developer runs into a string of problems characterized by slowness of government procedure at the local, state, and federal levels, and public apathy or even opposition. The developer must somehow create a well-designed project that appeals to several different groups, each one having its own idea of what the project should be. The local renewal agency is primarily interested in the type of construction and its attractiveness. The Federal Housing Administration is interested in the soundness of the structure and its economic feasibility. The Urban Renewal Administration is interested in the local renewal agency's securing a high price for the cleared land

and starting construction as soon as possible. These goals tend to conflict, and the redeveloper must somehow negotiate a compromise acceptable to all parties.

Even if the developer is successful in convincing the city that he must put up high-rent housing, he is still faced with the problem of renting it. Most urban renewal areas are former slums, and usually are surrounded by present slums. It takes considerable effort to persuade people that these areas are now desirable enough for them to pay rents averaging $195 per month. According to the vice president in charge of housing of the New York Life Insurance Company:

> As you all know, many urban renewal projects involve changing a neighborhood from something that in the mind of the public is unattractive, undesirable, and outmoded. To be able to suddenly change this public image into something new, attractive and much sought after invariably takes time — time that the short-run speculator will not wish to take nor in many instances can afford to take. Perhaps my experience has warped my judgment but I know that it has taken us years to convince our potential customers at Lake Meadows that the near South Side [in Chicago] is now a highly desirable place to live instead of the dangerous slum area of the past.[5]

Besides the conventional problems encountered in construction, private developers must also face up to additional ones caused by this interaction with local, state and federal agencies. The developer must be something of a diplomat and be able to deal with politicians and municipal officials at every level. Because he must be in continual contact with various government agencies throughout the duration of the project, it is important that these government agencies be well staffed and coordinated with one another. If they are not, extensive time delays are apt to result, and these can be very expensive to the developer because of the high "time value" he places on his invested capital.

The Profit Potential

An accurate determination of the profit potential for developers operating within the federal urban renewal program is difficult for two reasons:

1. There is only a limited amount of actual experience to judge from, and in most cases the length of the experience is too short to permit definite conclusions.
2. The financial arrangements themselves involve a high degree of diversity and complexity.

To get an approximate picture of what is happening, two approaches will be used. First, the high points of the financing pattern will be traced through a hypothetical example. Second, a more thorough mathematical model will be developed for the general case, which will make it possible to estimate the order of magnitude of possible profits in urban renewal, and the sensitivity of these profits to the various parameters of the mathematical model. This model can be found in research note 4 in Appendix B.

The developer is usually able to get a long-term loan for 90 per cent of the cost of the project because the Federal Housing Administration will insure a mortgage for an amount up to 90 per cent of the project cost. Thus, if the developer is unable to make payments on the mortgage, the Federal Housing Administration assumes the liability, not the long-term lender. Of course, the long-term lender pays for this insurance; the cost is one half of one per cent of the mortgage amount annually. The developer, if he is also the builder, which is often the case, is allowed to add 10 per cent to the cost of the project as his profit. This is called a builder's allowance. Thus, if all project costs came to $500,000, he would be allowed to add $50,000 as his profit. This makes the final cost of the project $550,000 and the amount of the mortgage is based on this figure. At 90 per cent the redeveloper would be able to get a mortgage for $495,000. Theoretically then, the developer would only have to put up $5,000 in cash. However, he is required to put up at least 3 per cent of the cost of the project in cash. This is called his equity investment.

The following hypothetical case is for a project with a final cost of one million dollars. Assume that basic construction cost amounts to $700,000. Adding architects' fees and other miscel-

laneous charges increases this to $800,000. The builder's allowance is 10 per cent, or $80,000, which brings the total to $880,000. In this example the land is assumed to cost $120,000. Thus the final cost of the project is one million dollars. The amount of the mortgage is 90 per cent of this total, or $900,000. It would appear, then, that the developer has to put up $100,000, $80,000 of which is his expected profit, leaving only $20,000 to be put up in cash. This however is not true; there are some other items that the developer must provide cash for. Working capital is necessary during the construction of the project and usually amounts to 2 per cent of the mortgage. In this case it would be $18,000. There is also a contractor's fee which usually runs about 3 per cent of basic construction cost, or about $21,000. In some cases this mortgage fee may actually come out of mortgage proceeds, as the developer and the contractor frequently have a joint partnership arrangement. If it is assumed that the developer and the contractor do not have a partnership arrangement, these additional items increase the amount of cash the private developer must provide to about $59,000 on a million dollar project.

Now let us examine the return on this investment. On a project of this size it could be reasonably assumed that the gross rental income at 100 per-cent occupancy would be approximately $140,000. In computing net return the Federal Housing Administration allows the developer to reduce this gross rental income by 7 per cent as an allowance for vacanies. After allowance is made for a 7 per cent vacancy rate, the rental income becomes $130,200. Operating expenses and real estate taxes would be about $50,200, leaving a net income of $80,000 per year before interest and principal payments are made on the mortgage.

Some cities offer substantial real estate tax abatements to private developers. These tax abatements are strong incentives to the private developer, and the size of the abatement may be the determining factor in the redeveloper's decision to accept the project. One common formula requires him to pay 20 per cent of the project's effective gross income in lieu of normal real estate taxes. Because of the uniqueness of each situation it is difficult to estimate the amount of real estate tax savings that

accrue to the developer. But regardless of the technique used, substantial tax concessions do occur.

The interest and principal payments usually amount to 7.5 per cent of the mortgage, which in this case would be $67,500. Thus, the annual return before taxes is $12,500. If the vacancy rate is lower, the annual return will, of course, run higher.

The amount of depreciation on the property is usually much greater than the annual net income, especially in early years. Because depreciation is considered an expense for income tax purposes, the annual net income is tax free if the amount of depreciation exceeds it. The excess of depreciation over net income can be applied to other sources of income, resulting in substantial tax savings to the private developer. This issue will be explored in more detail in the mathematical model. In this particular case it would be possible for the developer to recover his initial investment in less than five years. Later on, after the developer has paid off a substantial part of the mortgage, he is likely to refinance the project conventionally, without FHA insurance. By doing so, he is no longer subject to FHA restrictions on rents. It may be possible for him to raise his rents then, thereby increasing his income.

The whole property belongs to the redeveloper if he has provided all the equity capital. If real estate values continue to follow past trends, it is very likely that the property will at least maintain its original value and perhaps even increase in value. As the developer pays off the principal on the mortgage, his equity in the project increases. For example, if the developer has paid back $200,000 of the principal of the loan, his equity in the one million dollar property is now $300,000. After some time has elapsed, the developer will probably sell the property. The difference between what he receives for the property and the amount of the long-term loans left to be paid is a long-term capital gain for him. The developer hopes that by the time he sells, the surrounding area will have been improved, thus increasing the value of his property. This is the "pot of gold" that the private developer is looking for.

Equity Capital

As we said earlier, the Federal Housing Administration requires a redeveloper to make a minimum *cash* investment equal to 3 per cent of the actual project cost. This equity investment of 3 per cent may not be withdrawn for three years. If the full 3 per cent has not been invested by the redeveloper in the normal course of construction, he is required to make up the difference with a cash deposit. The primary purpose of this requirement is to prevent a repetition of the "608" scandals. When the Section 608 program was in operation, some apartment builders received windfalls by getting mortgages covering more than the actual cost of their projects and then keeping the excess.

An equity investment of 3 per cent is "ideal" from the developer's point of view, but it is doubtful if many of them attain it; most developers will probably have invested more than 3 per cent by the time the project is completed. However, it would be unreasonable to think that a fairly sophisticated private redeveloper would have to invest more than 5 or 6 per cent. The consensus of the developers interviewed was that redeveloper's equity will range from 3 to 6 per cent of the actual project cost.[6]

Although some of the equity capital is provided by the redevelopers themselves, it appears that most of the equity capital is coming from syndications, both public and private. However, little is known about the sources of these funds except that they are primarily provided by wealthy individuals. It is also felt that the new real estate investment trust law will provide a new source of equity money for the ownership of this type of property.[7]

The developer's equity is not invested at one time. His expenditures may easily start three to five years before construction is completed. As a group, these speculative developers usually have high minimum required rates of return because of alternative opportunities open to them, and this factor must be accounted for when estimating their capital investment. Having his capital tied up for long periods of time increases his "effec-

tive" investment substantially. For example, if a developer invested $100,000 and his minimum required rate of return was 25 per cent, his investment, compounded at 25 per cent, would be almost doubled at the end of three years. Time must be accounted for because if he had not invested the $100,000 in an urban renewal development, he presumably could have invested it elsewhere.

Because of the relatively small amount of equity involved, the rate of return on urban renewal projects is sensitive to minor changes in costs and revenues. Consequently the range of rate of return possibilities is wide. In the mathematical model developed in Appendix B it is estimated that the private developer's rate of return will probably range from 20 to 26 per cent.

The length of time during which the developer has his capital tied up and is receiving no return could easily double his "effective" investment. This would lower his expected rate of return by one half, reducing it to the range of 10 to 13 per cent. It must also be remembered that the developer is not likely to be awarded every job he bids for, and thus the profits from the projects he does succeed in getting must offset the expenses incurred on *all* projects he bids for. This also increases the developer's effective investment, and could easily reduce the expected rate of return still further to the range of 5 to 7 per cent.

Rates of return of 5 to 7 per cent are certainly not spectacular. Then why does the developer go into urban renewal? One possible reason is that the benefits accruing to him can be increased substantially by the taxes saved by depreciation. This will be a function of the excess amount of depreciation, the net cash flow, and the marginal income tax rate. But these benefits will be high only if the investor is in a high marginal tax bracket, and does not explain why those in relatively low brackets enter the field.

There is only one reasonable answer left. Probably the most important reason why developers enter urban renewal is the lure of large capital gains. If the urban renewal area ever is actually renewed, there is a strong possibility that the renewed environment will cause a substantial increase in the value of all

the real estate located within that environment. And a slight percentage increase in the total value of the property will result in a capital gain that is a very large percentage of the redeveloper's equity. For example, a capital gain of 10 per cent on the total value of a building will produce a 200 per cent capital gain before taxes to a developer with 5 per cent equity in a project. Developers seem to feel that urban renewal is an area where they can take a large "gamble" with the small amount of capital. The risk is high, but so is the potential payoff. According to William Zeckendorf, the main attraction of urban renewal is "maximum leverage" — smallest equity compared to gross project cost.[8]

The private developer is, in essence, an entrepreneur, whose main function is to bring together and coordinate the people, money, and materials necessary to implement private construction in urban renewal areas. He may invest a great deal of his and his staff's time and energy as well as a substantial amount of his capital. Because the eventual success of urban renewal has not yet been proved, there is a high degree of risk attached to his operations. Because the risks in urban renewal are high, it should be expected that the profit prospects should also be high. The redeveloper's investment may easily consist of as much time and energy as money. It is very easy to overlook the fact that the enormous amounts of personal attention that the redeveloper gives to a project are worth money, and thus form an important and substantial part of his investment.

Financial Arrangements

In this section the roles of the private developer, the suppliers of equity capital, and the suppliers of debt capital, and their relationships to one another will be examined. Some of the different types of financial motivations will also be explored.

The equity investor is the one who provides the equity capital. He invests a small amount of money relative to the amount of property he acquires ownership rights over. He acts as a buffer, sometimes with the developer, between profit and loss to the

long-term lender. If the project makes money, all parties — the developer, the equity investor, and the long-term or mortgage lender — make money. If the project loses money, the first to absorb the loss are the developer and the equity investor. Only when the losses exceed the amount of equity in the project, does the long-term lender lose. If the developer is incorporated, his risk is limited to his time and the capital he has invested. Even if he is not incorporated, it is possible to sponsor a project on essentially the same basis by including an exculpatory clause that frees him from any personal liability beyond what he has invested in the project.

The mortgage lender puts up the bulk of the money and receives a relatively small, steady return with fairly low risk. In construction financing there are two types of mortgage lenders: *the construction lender,* who provides short-term financing during the actual construction of the buildings, and the *permanent* or *long-term lender,* who provides long-term financing for the completed building.

The construction lender goes to great lengths to eliminate risk. In order to guard against the possibility of having his funds tied up if the project is not finished for some reason, the construction lender will usually require insurance from the Federal Housing Administration on the mortgage advances it makes during the course of construction. Also, the Federal National Mortgage Association will not purchase the mortgage unless FHA insures it, and therefore the construction lender wants to be sure that FHA is satisfied with the construction work as it progresses. The only possible risk left is the amount of the discount; FNMA will give the developer only 98.5 per cent of the mortgage; the remaining 1.5 per cent that is due the construction lender must be supplied by the developer. To eliminate this risk, the construction lender may require the developer to deposit an amount equal to 1.5 per cent of the mortgage before construction starts. While the money is deposited with the construction lender, the developer is paid the going rate of interest on savings accounts. Thus, when the time comes for the developer to pay, the construction lender is assured that he will

be able to. In conclusion, the construction lender assumes very little risk. Almost all of the risk involved is assumed by the federal government and the private developer.

The permanent or long-term lender buys the mortgage that is held by the construction lender after the construction is finished, and holds it to maturity. In the case of urban renewal construction the mortgage usually runs for forty years. FHA insurance on the mortgage virtually eliminates all of the risk to the mortgage lender. This is true because FHA will insure 90 per cent of the replacement cost, and replacement cost includes a 10 per cent redeveloper's profit. The primary consideration of the lending institution then becomes the rate of interest that it can charge. FHA mortgage rates are presently limited to 5 1/4 per cent, and if conventional rates are higher, the lending institutions must decide between going into conventional loans with higher yields or FHA loans with lower risk and lower yields. So far only a few lending institutions have been willing to accept the relatively low yields on FHA Section 220 mortgages. Consequently, many of them have been purchased by the Federal National Mortgage Association.

To further illustrate the private developer's financing problem, the important steps in the financing procedure will be examined in the order in which they generally occur. The redeveloper's financing problem, after he is awarded the bid, is essentially this: he must first secure temporary funds for the construction phase of the project and, when the construction is finished, he must secure permanent financing.

The first financing step the developer usually takes is to secure an *insurance commitment* from FHA. Once he has obtained the commitment, for which he must pay a fee of 0.15 per cent of the face value of the mortgage, he goes to either a conventional lender or FNMA and secures a *purchase commitment* for the mortgage. The purchase commitment is usually based upon the FHA insurance commitment. Once the redeveloper has secured both these commitments he will go to a *construction lender* who specializes in short-term construction loans. The construction lender, usually a commercial bank, will

advance funds for the construction phase on the basis of the commitments. There is little risk attached to this short-term loan because FHA will insure it and FNMA or a conventional long-term lender will purchase the mortgage when the construction is finished.

The developer is free to go to either FNMA or a conventional lender to get a purchase commitment for the mortgage. His choice depends primarily upon the price each one is willing to pay for the mortgage. An FHA mortgage usually runs for forty years and in 1962 carried an interest rate of 5 1/4 per cent. The market demand for these long-term, low-interest mortgages is relatively small. Conventional lenders usually demand an effective yield that is well above the quoted yield. A long-term conventional lender may pay between 92 and 94 per cent of the face value of the mortgage. This large discount would reduce the net proceeds to the developer by 6 to 8 per cent of the face value.

Realizing that a discount of this size could reduce the redeveloper's potential profit substantially, and that profit was required to keep the urban renewal program viable, Congress authorized FNMA to purchase FHA insured mortgages in urban renewal areas with its "special assistance" funds at a low rate of discount. FNMA was authorized to purchase the mortgages at par (no discount), and charge a purchase commitment fee of 1 per cent and a purchase fee of 0.5 per cent. Essentially FNMA pays 98 1/2 per cent of the face value of the mortgages. Thus, if the redeveloper deals with FNMA, his net proceeds will increase by the difference between the discount charged by a conventional lender and that charged by FNMA.

Urban renewal construction could be very profitable for the private developer. Because of favorable financing, the developer is required to put up only a small percentage of the funds required for the new construction. The Federal Housing Administration will insure 90 per cent of a long-term loan from either the federal government or a private lending institution to cover the cost of construction. The builder is allowed to include his own profit of 10 per cent in the cost of construction. On this basis it would be theoretically possible for the developer

to put up only 1 per cent of the total cash required; however, the law requires that the developer must invest at least 3 per cent in cash. Urban renewal is also attractive to high-income investors. Even in cases where the cash yield is not attractive, a large amount of depreciation is available. This depreciation deduction can eliminate federal income taxes by as much as 77 cents on each profit dollar derived from other sources. These tax benefits are also available in conventional construction, but urban renewal offers the advantage of having a greater percentage of debt financing.

In spite of the special financing arrangements available to private developers through FNMA and FHA, it has been difficult for many urban renewal projects to attract a sufficient number of qualified developers. Urban renewal construction usually has a fairly high degree of risk attached to it and private developers are willing to assume this risk primarily because urban renewal offers them the possibility of large capital gains relative to the amount of equity they must invest. An additional consideration, of course, is the annual income derived from the project. But so far most of these profits have been potential ones. And until these potential profits become more tangible, many developers will judge urban renewal construction as risky business and shy away. It seems likely that what has been accomplished so far has been largely a result of the government's decision to underwrite a substantial amount of the risk involved by means of special financing arrangements through FNMA and FHA. Without these special financing arrangements only the most desirable sites would ever be redeveloped.[9] If the federal urban renewal program continues in its present pattern, it appears that extensive federal and local financial aids will be necessary to offer sufficient inducement for private developers to initiate and carry out new construction plans for cleared urban renewal sites.

Events are developing which seem to indicate that even some of the largest and most sophisticated private urban renewal developers are becoming seriously disenchanted with the program. Leon Hickman, executive vice president of the Aluminum Company of America, which recently bought many of the urban

renewal projects developed by William Zeckendorf, stated in 1964:

> "The siren's song is to the effect that the FHA insures loans for better than 90 per cent of cost of construction, that the contractor's fee can be somehow plowed back into the project, that the subcontractors' bills can be postponed, and that if some financial angel will supply "seed money" to cover the remaining 3%, 4% or 5%, the promoter is off and running.
>
> So he is, but not for long. The concept ignores the consequences of construction delays and a variety of unanticipated costs which nearly always develop, and it never makes adequate allowance for the substantial cash loss that will be incurred during the fill-up period. It comes dangerously close to assuming immediate rental of all space. It makes no allowance for the delaying effect of the proximity of slums. It is like starting a business with credit already exhausted and no working capital, only more so.

Mr. Hickman went on to add:

> Our experience as a seed money angel was early in the game and relatively painless. *But we have seen enough to know that we have had it.*[10] [My italics.]

Summing up, the developer's investment is relatively small and the potential profit is high, but so are his risks, and the past experience of private developers indicates that urban renewal under federal auspices has not been as lucrative or as easy as originally anticipated. Most of the developer's profits are still on paper, and though they may be large, his chances of getting them are small.

Chapter Seven Notes

1 Marvin Gilman, "Entrepreneurial Considerations in Residential Redevelopment," *Private Financing Considerations in Urban Renewal*, 6th Annual Conference on Urban Renewal of the National Association of Housing and Redevelopment Officials (NAHRO), April 16–18, 1961.

2 Sid Jagger, Vice-President, Reynolds Aluminum Service Corporation, Washington, D. C., "Special Considerations Regarding Industry Sponsored Development," from a summary of an address given at the 6th Annual NAHRO Conference on urban renewal, Pittsburgh, Pennsylvania, April 16–18, 1961.

3 Duke University, School of Law, "Urban Renewal, Part II," *Law and Contemporary Problems*, Vol. 26 (Winter 1961), Eli Goldston, Allan Oakley Hunter, and Guido A. Rothrauff, "Urban Redevelopment — The Viewpoint of Counsel for a Private Redeveloper."

[4] Interview, Mr. Marvin Gilman, private redeveloper, Lindenhurst, New York, April 9, 1962.

[5] Otto L. Nelson, Jr., "Long-Term Equity Investment in Urban Renewal," *Private Financing Considerations in Urban Renewal,* 6th Annual NAHRO Conference, April 16–18, 1961.

[6] *Private Financing Considerations in Urban Renewal,* A Report of the Proceedings of the 6th Annual NAHRO Conference, April 16–18, 1961; Albert M. Cole, former Housing Administrator, "Good Business in Urban Renewal," *Business Week,* April 15, 1962; Interviews with: Marvin S. Gilman, Gilman and Schwartz; John O'Hara and Stanley Berman, both of Webb and Knapp, 1962.

[7] George M. Brady, "Entrepreneurial Considerations in Commercial Development," *Private Financing Considerations in Urban Renewal,* 6th Annual NAHRO Conference, April 16–18, 1961.

[8] "Housing Developers Vie for Jobs of Clearing Slums," *Business Week,* February 22, 1958, p. 80.

[9] Duke University, School of Law, "Urban Renewal, Part II," *Law and Contemporary Problems,* Vol. 26 (Winter 1961), p. 153.

[10] *Barrons,* National Business and Financial Weekly, July 13, 1964, "Bureaucracy and Blight: Urban Renewal Stands Condemned as a Costly Failure" by Shirley Scheibla, p. 5.

CHAPTER EIGHT

WHERE DOES THE MONEY COME FROM?

> For which of you, intending to build a tower, sitteth not down first, and counteth the cost, whether he have sufficient to finish it?
>
> Luke 14:28

Estimates of the money needed for the federal urban renewal program vary widely. The estimates depend upon the scope of the urban problems defined and the type of urban renewal that the estimators expect to be employed. In 1953 the President's Advisory Committee on Government Housing Policies and Programs estimated that $24 billion would be required to demolish five million dwelling units and rehabilitate fifteen million others. This is considered to be a conservative estimate because it covers only the cost of public improvements and facilities and the public cost of making cleared residential land available for development.[1] A less conservative estimate was developed by the Twentieth Century Fund in 1955. They estimated that $125 billion would be needed for the improvement of residential neighborhoods requiring clearance or substantial rehabilitation.[2] The trend has been toward even higher estimates. In 1958, the Chairman of the Department of City and Regional Planning of Harvard University estimated that almost two trillion dollars would be needed. He stated:

> For the United States as a whole, one trillion, eight hundred sixty-five billion dollars — almost two trillion dollars must be expended by public and private enterprise during the period 1958–1970 to meet the needs for new construction, rehabilitation, conservation and maintenance.[3]

This very generous estimate is based on a concept of urban renewal that encompasses all public and private investment in the physical structures of the city.

The consensus of urban experts is that a tremendous amount of money will be required to effectuate the urban renewal process. A serious consideration of any of their estimates brings up some provocative questions. Is the money available and if so, who will provide it and under what conditions? The current view is that the greater part of the funds required will come voluntarily from private citizens. In August of 1960 the Committee for Economic Development made the following policy statement regarding the federal urban renewal program:

> Estimates of the capital requirements to renew our cities cover a wide range — from $120 billion up. *These estimates assume that three-fourths to seven-eighths of the total outlay will take the form of private capital outlay.* The government's role is viewed as setting the stage for private development and providing financial assistance only to the extent required to permit the private real estate market to function effectively. [My italics.]

The government's estimates also reflect this thinking. In 1960 the Urban Renewal Administration estimated that $3.65 would be invested by private enterprise for every $1.00 invested by federal, state, and local public bodies.[4] So far, most proponents of urban renewal have assumed that the government's contribution would be "seed money," and that the use of public funds would not be so extensive as to put the government into the real estate business. The government's role was viewed as making possible the write-down of land costs in slum areas to enable private developers to proceed profitably. David Rockefeller,[5] speaking on the federal urban renewal program before the General Electric Forum in January 1962, stated:

> Funds for housing and commercial construction must come in

large part from private sources. Public monies can only be "seed" money, except for public facilities such as roads, schools, etc. We must consider the other demands on the Nation's means.

Thus, not only do the urban experts feel that a tremendous amount of money is needed, but they feel that most of this money must come voluntarily from private sources, and they hope that the private sources will cooperate in this.

It is true that a very large amount of money may be spent on the federal urban renewal program, but the history of urban renewal casts serious doubt on the expectation that most of the money will come from private sources. So far most of the money has come from federal, state, and local governments — the greatest part in the form of outright payments, a smaller amount in the form of direct federal financing. The main purpose of this chapter is to examine the past financing record of urban renewal and to use this record to speculate about the future financing pattern that will be used in the federal urban renewal program.

Financing of Private Residential Construction

Of the $824 million of construction started in urban renewal areas from 1949 to 1960, approximately $577 million of it was privately owned. But the fact that it was privately owned does not necessarily mean that it was completely financed by private individuals or financial institutions. Throughout the following analysis it must be clearly kept in mind that two categories of private construction are being discussed: all the construction is privately owned, but one category is publicly financed and one category is privately financed. Private financial institutions have financed the $115 million worth of commercial and industrial construction, but they have played a relatively minor role in the financing of the $462 million worth of private residential construction.

The Federal Housing Administration is authorized to insure residential mortgages in urban renewal areas. These mortgages can be purchased by the Federal National Mortgage Association (FNMA). The Federal Housing Administration operates housing loan programs; it does not make loans or build housing. The

Federal National Mortgage Association administers the Government's secondary market facility for home mortgages through the purchase and sale of certain types of FHA-insured mortgages covering residential housing. Under its *special assistance* function FNMA may finance selected types of home mortgages that are originated under special housing programs. The federal urban renewal program qualifies as one of these special programs and thus FNMA is authorized to lend public funds for urban renewal purposes. When FNMA purchases these mortgages with government money, the federal government becomes a long-run supplier of mortgage funds for urban renewal construction. During the past decade the Federal National Mortgage Association has played a predominant role in the financing of residential construction in urban renewal areas. The result is that a high percentage of the funds, which appear to be privately supplied because the investment is privately owned, are actually supplied by the federal government. Essentially, the taxpayers of the United States are providing long-term loans to finance the building of new apartment buildings in urban renewal areas throughout the country.

A large percentage of the private residential construction in urban renewal areas is insured by the Federal Housing Administration under Section 220 of the Housing Act. As of December 31, 1960, FHA had already insured approximately $296 million of private residential mortgages in urban renewal areas.[6] This was 64 per cent of the estimated amount of private residential construction started at that time. Multifamily apartment buildings accounted for about 95 per cent of the total amount insured by FHA. The time pattern of the insurance activity of FHA through 1962 is shown below in Table 8.1.

FHA is also active in other areas of housing related to urban renewal. Under Section 221 of the Housing Act, FHA is authorized to insure construction outside of urban renewal areas when that construction is intended to be used for families displaced from urban renewal areas. In this study, we will only be concerned with construction activity within the urban renewal area.

As stated previously, about 64 per cent of the private residen-

tial construction started in urban renewal areas from 1949 to 1960 had been insured by FHA. However, FHA was not authorized to insure this type of mortgage until 1954. Because of this, a more relevant measure of FHA's degree of participation would be based on the amount of private residential construction started after 1954. It is estimated that $86 million of private residential construction was started prior to 1954.[7] Therefore,

TABLE 8.1

INSURANCE ACTIVITY OF FHA IN URBAN RENEWAL AREAS (SECTION 220) MORTGAGES — 1956 THROUGH 1960 (*thousands of dollars*)

Year	*Annual Amount Insured*	*Multi-family*	*Single Family*	*Multi-family as a Per Cent of Total*	*Single Family as a Per Cent of Total*
1956	$ 9,973	$ 9,375	$ 598	94.0%	6.0%
1957	64,772	59,929	4,843	92.5	7.5
1958	37,841	31,579	6,262	83.5	16.5
1959	103,143	100,865	2,278	97.8	2.2
1960	80,863	79,116	1,747	97.8	2.2
1961	101,606	97,181	4,425	95.6	4.4
1962	166,031	157,301	8,730	94.7	5.3

SOURCES: Annual Reports, Housing and Home Finance Agency, Washington 25, D. C.; 1956, Table III-18, p. 70; 1957, Table III-17, p. 73; 1958, Table III-17, p. 77; 1959, Table III-17, p. 81; 1960, Table III-15, p. 83; 1961, Table III-15, p. 77; 1962, Table III-15, p. 68.

of the $462 million of private residential construction started in urban renewal areas by 1960 only $376 million was started after 1954 and was thus eligible for FHA insurance. Of the $376 million eligible for FHA insurance, $296 million, or 79 per cent, was insured by FHA.

Under FHA insurance, many types of financial institutions have provided funds to urban renewal developers (see Table 8.2). State banks have played a major role in the *initial* financing of private residential real estate in urban renewal areas by originating over 48 per cent of the total amount of the mortgages. Commercial (state and national) banks together provided over

64 per cent of the initial financing. Mortgage companies originated 12.8 per cent, insurance companies 12.1 per cent, and savings banks 9.5 per cent of the amount of the mortgages.

The financing picture for urban renewal is complex because many of the mortgages are frequently traded. The amount held in the portfolios of the financial institutions reflects their buying

TABLE 8.2

ORIGINAL SOURCES OF MONEY FOR FHA INSURED, SECTION 220 MORTGAGES 1956 THROUGH 1962 (*thousands of dollars*)

Financial Institution	*Amount Financed*	*Per Cent of Total Financed*
State Banks	$271,306	48.1
National Banks	92,217	16.4
Mortgage Companies	72,242	12.8
Insurance Companies	67,745	12.1
Savings Banks	53,734	9.5
Savings & Loan Associations	3,870	0.7
Federal Agencies	206	*
All Other	2,203	0.4
	$563,523	100.0

* Less than 0.1 per cent.

SOURCES: Annual Reports, Housing and Home Finance Agency, Washington 25, D. C.; 1956, Table III-18, p. 70; 1957, Table III-17, p. 73; 1958, Table III-17, p. 77; 1959, Table III-17, p. 81; 1960, Table III-15, p. 83; 1961, Table III-15, p. 77; 1962, Table III-15, p. 68.

and selling activities as well as the loans they originate. From 1956 to 1962 there was brisk traffic in urban renewal mortgages, and almost 50 per cent of the existing mortgages were traded. This trading activity is summarized in Table A.14 in Appendix A. State banks, mortgage companies, national banks, and savings banks accounted for 94.2 per cent of all sales of Section 220 urban renewal mortgages. State banks alone accounted for 60 per cent of the total sold. On the purchasing side, FNMA played the predominant role, accounting for 73 per cent of all purchases.

What is behind these large portfolio changes? Once FHA has issued a firm commitment to insure the mortgage, the latter

becomes eligible for purchase by FNMA. In essence, commercial banks make *short-term* construction loans to developers after the developer has succeeded in getting FHA mortgage insurance and a FNMA commitment. The banks charge interest *plus* a fee of 1½ per cent as a service charge.[8] The FNMA commitment is good for 24 months and at any time during this period the bank may sell the mortgage to FNMA. This appears to be a lucrative arrangement for the banks — they obtain short-term, relatively risk-free loans paying an interest premium of 1½ per cent over the market rate. The main purpose of commercial banks is to provide construction funds for relatively short periods of time. As soon as construction is complete they dispose of the mortgage to a long-term lender.

The ultimate sources of long-term funds for private residential construction in urban renewal areas can be determined by examining the outstanding holdings of the financial institutions dealing in urban renewal mortgages. The outstanding holdings are summarized in Table 8.3 along with the financing and trading activity that produced them. The largest supplier of long-term funds is clearly FNMA. As of December 31, 1962, FNMA had 34.1 per cent of the outstanding 220 urban renewal mortgages in its portfolio. State banks at that time held 22.8 per cent of the total, but it is expected that, following the pattern outlined earlier, they will eventually sell a large percentage of them to FNMA. Insurance companies accounted for 15.4 per cent of the loans, and so far are the only major private financial institutions that are net purchasers. National banks accounted for 12.9 per cent; although they have not turned them over as rapidly as the state banks, they have recently begun to sell, and it is expected that they will continue to be net sellers. The remaining 14.8 per cent of mortgage loans outstanding was primarily supplied by savings banks and mortgage companies.

Normally, large suppliers of long-term funds for multifamily residential construction, such as insurance companies and commercial banks, have not been very active in the financing of multifamily urban renewal construction. This is probably because alternative real estate investments, in terms of effective yield

and risk, are considered more attractive. Recently, however, there has been a change in the attitude of private investors toward mortgages on urban renewal projects. On October 3, 1962, Urban Renewal Commissioner William L. Slayton said that

TABLE 8.3

FINANCING, PURCHASES, SALES, AND OUTSTANDING HOLDINGS OF SECTION 220 URBAN RENEWAL MORTGAGES 1956 THROUGH 1962 (*thousands of dollars*)

Institution	*Amount Financed 1956–62*	*Net (Sales) or Purchases 1956–62*	*Outstanding Holdings as of 12/62*	*Per Cent of Total Outstanding as of 12/62*
FNMA	$ 206	$186,836	$186,120	34.1
State Banks	271,306	(149,684)	124,668	22.8
Insurance Cos.	67,745	26,471	84,310	15.4
National Banks	92,217	(19,022)	70,929	12.9
Savings Banks	53,734	(7,294)	43,969	8.0
Mortgage Cos.	72,242	(49,134)	19,046	3.5
Savings & Loan Associations	3,870	(3,200)	245	*
All Other	2,203	14,988	17,813	3.3

* Less than 0.1 per cent.

SOURCES: Annual Reports, Housing and Home Finance Agency, Washington 25, D. C.; 1956, Tables III-18, 20, 21 and 22, pp. 70-76; 1957, Tables III-17, 19, 20 and 21, pp. 73-79; 1958, Tables III-17, 19, 20 and 21, pp. 77-83; 1959, Tables III-17, 19, 20 and 21, pp. 81-88; 1960, Tables III-15, 17, 18 and 19, pp. 83-90; 1961, Tables III-15, 17, 18, and 19, pp. 77-85; 1962, Tables III-15, 17, 18 and 19, pp. 68-76.

$71 million of commitments by the Federal National Mortgage Association to purchase urban redevelopment mortgages had recently been canceled.[9] This is an indication that the private capital markets may supply some of the funds that previously came from the federal government.

There were some fairly good reasons for this development. According to Commissioner Slayton the following facts were

primarily responsible for the improvement in the flow of private investment funds into urban renewal housing loans:

1. The Federal National Mortgage Association announced in February 1962, that when private placements result in termination of a commitment it would refund three fourths of the 1 per-cent commitment fee charged for multifamily mortgages.
2. The Housing Act of 1961 authorized the Federal Housing Administration to settle urban renewal losses in cash instead of long-term debentures.
3. The Federal Housing Administration also received new authority to make temporary adjustments in loan terms and conditions when an urban renewal project is slow in renting-up and not yet secure on its financial feet.
4. A record thrift accumulation by savers has exerted pressure on financial institutions to actively seek new lending business.

As net mortgage yields on conventional mortgages decline, urban renewal mortgages become relatively more attractive. This is especially true when, at the same time, the federal government is attempting to make these urban renewal mortgages as attractive as possible by increasing their profitability and decreasing the amount of risk attached to them.

Direct Federal Financing of New Private Construction

As was shown earlier, the Federal Housing Administration (FHA) insured a high percentage of new private construction in urban renewal areas. Funds for financing the urban renewal mortgage purchases of FNMA are obtained primarily by borrowing from the Secretary of the Treasury; small additional sources of funds are the net proceeds from operations and portfolio liquidation. Under the provisions of the Housing Act of 1961, the President's authorization for special assistance to urban renewal was increased by $957.2 million to $1,957.2 million by

1. A general increase of $750.0 million in special assistance authority.

2. An increase of $207.2 million (represented by the transfer to his specific control of the unused authorization as of June 30, 1961) remaining from the special assistance program established by the Emergency Housing Act of 1958.

Once FHA has insured the mortgage, FNMA may issue a commitment to purchase the mortgage. Experience has shown that most commitments made by FNMA are exercised by the lenders. Thus we can estimate the degree of FNMA involvement by calculating the percentage of the mortgages insured by FHA that have been purchased or are under commitment to be purchased by FNMA. As of December 31, 1960, FHA had insured about $296 million of mortgages in urban renewal areas. At that time FNMA had purchased or issued commitments to purchase $274 million or 92.5 per cent of these mortgages. At the end of 1961, FHA had insured $367 million worth and FNMA had purchased or issued commitments to purchase $302 million or 82.5 per cent of them.

In 1962 this buying pattern by FNMA changed significantly; of $547 million worth of urban renewal Section 220 mortgages insured by FHA at the end of 1962, FNMA had purchased or issued commitments to purchase $309 million or 56.5 per cent of them. FNMA had also sold $16.2 million of these mortgages from its portfolio in 1962, thus reducing its percentage of FHA insured urban renewal mortgages to 53.5 per cent. According to the Federal Housing Administration:

> The year 1962 saw a change in the longtime complete dependence of Section 220 multifamily projects on FNMA takeout [purchase]. Beginning in mid-1962, a high proportion of Section 220 projects has been financed by private lending institutions, and many Section 220 mortgages have been purchased from FNMA by private lenders.[10]

It is estimated that FNMA will probably account for 50–55 per cent of the future long-term urban renewal financing insured by FHA, especially for poorer quality mortgages which the private lenders will reject.

Thus, the ultimate long-term supplier of a large part of the funds required for privately owned urban renewal construction

is likely to be the Federal National Mortgage Association. Through this public financing medium, loans in urban renewal areas are insured by one agency of the government (FHA) and financed by another agency (FNMA). In effect, this constitutes a large direct lending program of the federal government. The primary purpose of this direct lending program is to stimulate private construction on urban renewal sites. Because of the circuitous route that the financing takes, few people are even aware that this means of subsidy is in existence.

The Federal National Mortgage Association's experience with its urban renewal mortgage portfolio has been short, but already there are indications that the mortgages may be in serious trouble. As of December 31, 1962, FNMA had $174.9 million worth of urban renewal mortgages (Section 220) in its portfolio. Approximately 11 per cent of this amount were single-family mortgages, and less than 2 per cent of these were behind in their payments.[11] The situation was quite different for the bulk of the mortgages, the multifamily ones.

As of December 31, 1962, fully 27 per cent of the multifamily mortgages, which account for 89 per cent of the total in urban renewal areas, were behind in their payments. This is shown in Table 8.4. Of these delinquent mortgages, 2 per cent had been delinquent for one to three months, 11 per cent for three to six months, 8 per cent for over six months, and 6 per cent had been foreclosed and were in liquidation. A delinquency rate of 27 per cent is phenomenally high; usually the rates are on the order of 2 or 3 per cent or less.

An examination of Table 8.4 shows that although the situation is quite bad, it has been worse and is actually improving. Throughout 1961, the delinquency rate stood at 46 per cent. The drop to 39 per cent in the middle of 1962, and then to 27 per cent by the end of 1962, is partly attributable to the efforts of FNMA to readjust the terms of the mortgages and partly to the eventual renting out of the apartment buildings that secure the mortgages. However, federal authorities were still exercising caution in dealing with these mortgages. In the Federal Housing Administration:

Field offices were reminded during the year 1962 of the need for aggressive servicing of project mortgages insured under Sections 220 and 221 because of their vulnerability to early financial difficulty, which can often be averted by prompt detection of unfavorable conditions and prompt action by FHA and mortgagees.[12]

TABLE 8.4

STATUS OF MULTIFAMILY URBAN RENEWAL MORTGAGES IN FNMA PORTFOLIO FROM JUNE 30, 1960 TO DECEMBER 31, 1962 (*thousands of dollars*)

		Per Cent of Total behind in Payments				
Date	*Amount Outstanding*	*1 to 3 Months*	*3 to 6 Months*	*Over Six Months*	*In Liquidation*	*Total Delinquent*
1960 June	$ 63,396	—	—	—	—	—
1960 December	85,878	—	—	—	—	—
1961 June	105,531	20	26	—	—	46
1961 December	126,288	2	27	17	—	46
1962 June	169,501	—	13	26	—	39
1962 December	155,880	2	11	8	6	27

SOURCE: Quarterly Report of the Federal National Mortgage Association, Status of Mortgages in Portfolio, June 30, 1960, through December 31, 1962.

This high delinquency rate experience has serious implications for the future of urban renewal. In the past, FNMA has played a major role in the financing of private residential construction in urban renewal areas, and private residential construction has accounted for a major part of all urban renewal construction activity. If these two trends continue in the future FNMA may eventually find itself with a large amount of urban renewal mortgages in its portfolio. Thus it is important to ascertain whether the high delinquency rate is of a temporary nature or whether it indicates that these mortgages are of poor quality. If they are poor quality, the federal government will probably be forced to foreclose on a substantial number of them at some time in the future.

Why have payments fallen behind on such a large percentage

of the mortgages? The situation may be caused by a temporary lack of demand because of the newness of urban renewal; that is, people may be wary of moving into a good apartment if it is located in the midst of a slum. This problem will decrease somewhat as more buildings are constructed within the urban renewal area. However, the average urban renewal project only encompasses 48 acres.[13] In most cases an area of this size will not be sufficient to overcome completely the negative effects caused by the surrounding neighborhood. For this reason it is expected that, although demand will probably increase in the future as the added construction within the urban renewal area improves the immediate surroundings, demand for space in these areas will remain relatively light.

Summing up: indications are that private residential construction will continue to be a major part of total urban renewal construction, FNMA will continue to finance a high percentage of this private residential construction, and demand for this type of construction will continue to be light, causing the mortgages to be risky investments. The net result is that the federal government is apt to find itself in the private real estate business to a considerable degree, with the very real possibility of having a significant amount of defaulted mortgages on its hands.

At present there is little information available on the financing of commercial and industrial construction in urban renewal areas. There are no government-guaranteed loans available for this type of construction, unless it is a part of an FHA apartment project. Because of this it is likely that most of the funds provided have come from private sources. Although it is very difficult to get quantitative data on the financing of this type of construction, it is possible to get a qualitative idea of what the major sources of funds are. It appears that big life insurance companies are the prime sources of funds, with large savings banks providing some funds in limited areas of the country such as New York. Pension funds are beginning to play a more active role in this area, but so far very few large commercial banks have taken an active part. According to a vice president of James W. Rouse and Company:

Commercial developers are dependent upon conventional financing, life insurance companies are the prime sources — big life insurance companies, because these are big projects. It is true that in some areas large savings banks are active in this field. These are limited areas, and in the case of New York, the home of most of the major savings banks, they are limited to making conventional loans in contiguous states. Very few of the large commercial banks are a factor in this market. Pension funds are playing an increasingly important role in this field. Therefore, it is to the mortgage banker, who represents the large life insurance companies, and who is rapidly getting to know the pension funds, that the entrepreneur must look for mortgage financing.[14]

Financing the Total Cost of Urban Renewal

Huge sums of money will be required to implement the urban renewal process. Will sufficient funds be available and, if so, who will provide them? The answers to these questions hold the key to the future of the federal urban renewal program. Because an analysis of these questions entails the prediction of future events, it is impossible to provide certain answers. However, it is possible to draw some conclusions about future developments based upon the past record of urban renewal.

The total cost of an urban renewal project is approximately equal to its net project cost plus the cost of the privately owned construction. The cost of new public construction is usually included in the net project cost. Gross project cost cannot be used because it includes the amount that the developer will pay for the cleared land, and this will be included in the cost of the construction that the private developer erects.

Experience with the urban renewal program up to March 31, 1961, shows that 20 per cent of the privately owned construction was devoted to commercial and industrial uses. This type of construction was completely financed by private individuals and financial institutions. The remaining 80 per cent of the privately owned construction was devoted to residential uses, and was thus eligible for federal insurance and federal financing.

It is estimated that about 79 per cent of the privately owned residential construction is insured by the Federal Housing Ad-

ministration, and approximately 55 per cent of these FHA insured mortgages are purchased by the federal government through the Federal National Mortgage Association. This means that an estimated 43 per cent of privately owned residential construction in urban renewal areas is financed by the federal government.

If all types of privately owned construction in urban renewal areas are combined in one category, we find that the federal government, operating through FNMA, finances approximately 35 per cent of all privately owned construction (including commercial and industrial construction) in urban renewal areas. Whenever we examine privately owned urban renewal construction, it is necessary to distinguish between that construction which is privately owned and privately financed and that which is privately owned but is financed with public funds.

Net project cost makes up the rest of the total cost of urban renewal. Two thirds of net project cost is paid for by the federal government; one third is paid for by the city in which the project is located. In some cases, the state government will pay part of the city's share.

Summing up: the total cost of urban renewal consists of the net project cost plus the cost of privately owned construction. The federal, state, and local governments pay for 100 per cent of the net project cost; the federal government finances about 35 per cent of the privately owned construction; private individuals and financial institutions finance the remaining 65 per cent.

On the basis of these relationships it is possible to estimate what percentage of the total cost of urban renewal has been paid for by the public, what percentage has been financed by the public, and what percentage has been financed by private financial institutions.

In order to do this we must first estimate the relative importance of net project cost and the cost of privately owned construction. If we accept the federal government's estimate that $3.65 of new private construction will be built for every public dollar that is spent we arrive at the following:

1. Federal, state, and local governments together will *pay for* about 21 per cent of the total cost of urban renewal. The federal government alone will provide 14 per cent; state and local governments will provide the remaining 7 per cent.
2. The federal government will *finance* about 27 per cent of the total cost through the Federal National Mortgage Association. FNMA loans public money to private developers for periods of time up to 40 years.
3. Private financial institutions and individuals will finance the remaining 52 per cent with long-term loans. Some of these loans may be insured by the Federal Housing Administration.[15]

Thus, if the past pattern of urban renewal financing holds in the future and $3.65 worth of private construction is built for every $1 of public money that is spent, approximately half of the total funds required for urban renewal will come from private sources; the remaining half will come from public sources, with the federal government providing the largest share.

This conclusion is based on the assumption that private expenditures will exceed public ones by a 3.65 to 1 margin. Let us see what had actually happened up to the end of March in 1961. As of that date, over $1,430 million of public money had been spent, whereas only an estimated $824 million of new construction had been started. Of this $824 million of new construction, $577 million was privately owned and $247 was publicly owned. Thus, in order to get about $577 million of new construction started, it was necessary to spend approximately $1,430 million of public money. It can be claimed that this is not a fair comparison because the spending of public money must necessarily precede new private construction activity, and thus the $1,430 million will probably draw out a substantially greater amount of new construction in the future. This may be true, but it neglects to say anything about the level of public expenditures during the period of time before this new private construction materializes. If we are to assume that the program is growing,

it is necessary to take a dynamic view and consider that it is happening at various points in time. As long as the program continues to grow, public expenditures will precede private expenditures at any point in time, and, because of the importance of the timing of cash flows, it is necessary that we consider it on this basis.

If we optimistically assumed that, say, 80 per cent of the $577 million started was actually finished as of March 31, 1961, it would mean that it was necessary to spend $1,430 million of public money to stimulate about $460 million of new private construction, of which a substantial amount would probably have been built if the federal urban renewal program had not existed. This means that as of March 31, 1961, approximately $0.32 of privately owned urban renewal construction had been stimulated for every $1.00 of public funds expended. It is estimated that as the program matures this ratio will be increased, but it appears unlikely that $3.65, or more optimistically $6.00, of privately owned construction will be stimulated for every $1.00 of public funds.

As of March 31, 1961, it is estimated that federal, state, and local governments had provided over 85 per cent of the total amount of money spent on urban renewal up to that time. This extremely high ratio of public money to private money will probably not continue at this level in the future, but it would seem reasonable to assume that if the program continues to expand, considerably more public money will be spent than private money.

If the ratio of private construction built to public money spent changes, the per cent of the total amount of money spent on urban renewal that is invested by private sources will also change. For example, if all the other factors remained constant except this ratio, the following would probably happen: with a 6 to 1 ratio, private sources would invest about 55 per cent of the total; with a 2 to 1 ratio, about 45 per cent; with a 1 to 1 ratio, about 32 per cent; with a 1 to 3 ratio, about 16 per cent.

If the past record is any indicator of the path that future financing will take, it shows clearly that there must be a tremen-

dous flow of public money into the program if urban renewal is to proceed on any significant scale. In any event, the public share is apt to be large. Partly because of the large amount of direct federal financng through FNMA, the major supplier of funds for the renewal of the cities will be the federal government. Private financial institutions will be the secondary source. State and local governments will contribute only relatively small amounts of funds.

The taxpayers in the United States have paid and will continue to pay for a substantial share of the cost of urban renewal. Close to four billion dollars has already been spent, and more has been appropriated. One way to show the order of magnitude of the amount of public money that will be needed is to look at a discussion that took place during hearings on the House Committee on Appropriations in 1959. Albert Thomas, the Chairman of the House Subcommittee responsible for urban renewal appropriations questioned Norman Mason, a former Federal Housing Commissioner, and Richard Steiner, the Commissioner of Urban Renewal for the United States:

> MR. THOMAS: Your grant money is $1,300 million in round figures. We are getting up into some money here. What do you think you will spend in the next ten years? How long will it be before you get 90 per cent of the program behind you? By the time you do that you have to rub it out and start all over again, do you not?
>
> MR. MASON: The Committee on Economic Development has done some guessing on this and they have a constantly increasing figure in their estimates.
>
> MR. THOMAS: Have you people done any figuring on it?
>
> MR. STEINER: I do not think there is any really good, reliable figure of the total national need.[16]

This is a program that may ultimately cost the taxpayers of the United States billions of dollars. Thus it is important to know who provides the money and what the money is spent for.

Approximately $6,000 million in public funds has already been earmarked for urban renewal to subsidize projects conducted under the federal program. The proponents of the program believe that large areas of urban land must be made available

to private developers at low cost. Eminent domain solves the problem of acquiring large continuous tracts of land; public subsidy makes this land available to private developers at low cost.

The view that the public will finance and pay for most of the cost of urban renewal differs significantly from the current views held by most of those people associated with the program. This is possibly the most significant conclusion coming out of this study. In 1962, Wiliam R. Slayton, Commissioner of the Urban Renewal Administration, stated:

> Some idea of the possible size of that investment was given recently by Housing Administrator Robert C. Weaver when he said:
>
> "The Housing Act of 1961 authorizes $2 billion in urban renewal grants over the next four years — the same amount Congress authorized when it inaugurated the urban renewal program twelve years ago. So in money terms alone we expect to be moving three times as fast in the years ahead as we have in the years past.
>
> "This total of $4 billion in Federal money is just 'seed money' of course. The communities taking part in the urban renewal program will match this with about two billion dollars in cash or kind. And we expect these expenditures to generate the investment from private sources of another twenty billion dollars.
>
> "Altogether this comes to the investment of $26 billion in urban renewal."
>
> In addition to this "seed money," the special assistance purchases by the Federal National Mortgage Association of Section 220 mortgages are also a form of seed money, until the private markets are ready to carry the full load.[17]

If the federal government and the local communities collectively put up $6,000 million and $20,000 million of "private" investment is generated, this study indicates that, in the long run, $7,000 million of the private investment will probably be financed directly by the federal government. Thus the public share of a $26,000 million investment in urban renewal is likely to be $13,000 million, rather than $6,000 million. This $13,000 million will consist of $7,000 million of direct federal loans, $4,000 million of federal grants, and $2,000 million of local funds. This clearly demonstrates the great importance of the role that FNMA

may play in urban renewal. It has been assumed in the past that the funds supplied by FNMA will be seed money, and that the private markets will eventually carry the full load. This assumption, on the basis of evidence presented, appears to be subject to considerable question.

These estimates do not take into account the time lag between the expenditures of public money and the expenditure of private money. According to our estimates as of March 31, 1961, $6,000 million of government funds would only draw forth about $675 million of private funds, not $20,000 million. These estimates, of course, would hold only as long as the program continued to grow in approximately the same manner as it had up to 1961. In any case, when we consider time lags between public and private expenditures together with the continued growth of the program, it is clear that it is very likely that the amounts of public money spent will substantially exceed the amounts of private money at any point in time.

If the money required to implement the urban renewal process is not provided by private financial institutions, it must be supplied by the government via long-term loans and outright grants. If the decision is made to proceed seriously with the program and it is necessary for the government to provide most of the money, it is likely that extensive side effects would result, even if noninflationary policies could be pursued. The program could conceivably be financed by either:

1. A major reallocation of present public resources.
2. Increased taxes.
3. An increase in the national debt.
4. Some combination of reallocation, increased taxes, and increased national debt.

A major reallocation of public resources in the foreseeable future is highly unlikely. What other government functions would be decreased to increase the amount of money available for urban renewal? It does not seem realistic to assume that expenditures for defense, veterans' programs, farm programs, and interest on the national debt will be decreased to any significant extent.

When the federal urban renewal program is evaluated as just one of the many federal programs, its relative importance seems slight. Each dollar spent on urban renewal must win a political and economic battle with many alternative programs.

It is also doubtful that the amount of money required could be obtained through increased taxes. An increase in taxes for the purpose of urban renewal would result in a redistribution of wealth to attempt to provide improved housing and more amenable cities for some. This implicitly means that the taxpayer would be forced to allocate a substantial part of his income toward the improvement of housing and cities. It is very possible that, if the proposition were put to him on these terms, he would not support the program to the degree deemed necessary by its proponents.

Even if long-term loans were used to finance the program it is doubtful if enough money would be provided. If loans were used, it would simply mean that this money would be unavailable for other uses, and it is unlikely that urban renewal could attract these funds without running into strong competition from alternative uses.

The sources of public funds and their alternative uses will play an important role in the determination of the amount of public funds that will be allocated to urban renewal. And it appears reasonable to assume that billions of dollars of public funds could not be diverted to urban renewal without causing extensive side effects, which in turn would evoke strong opposition to the program. This clearly establishes a very important point: *billions of dollars are required to effectuate the program and most of the money must come from private sources if the program is to work as planned.*

The question of whether or not private sources will provide this money is one that has not been considered clearly in the past. In view of the fact that large amounts of private money must be provided if the program is to succeed, people who desire to see the program succeed have implicitly assumed that private financial institutions would supply the money. There is certainly a *possibility* that the money will be provided by private

sources, but it appears that the *probability* of this happening is low.

Of course, the pattern of future financing may be different. But if it is, something must change. It is up to those who maintain that private financial institutions will provide most of the funds to show explicitly how this might be done. After the possible courses of action are spelled out, the chances of success of each possibility should also be evaluated. It appears that in the past, the proponents of urban renewal have relied heavily on *possibilities* without rigorously evaluating the *probabilities* of their success.

Chapter Eight Notes

[1] Innes, John W., *Urban Renewal Policies and Programs in the United States,* November 1960, Housing and Home Finance Agency, Washington 25, D. C., p. 31.

[2] Bloomberg, L. N., H. D. Brunsman, and A. B. Handler, "Urban Redevelopment," *America's Needs and Resources: A New Survey,* Twentieth Century Fund (1955), p. 512.

[3] Isaacs, Reginald R., "The Real Costs of Urban Renewal," *Problems of United States Economic Development,* papers by 49 free-world leaders on the most important problems facing the United States, Committee for Economic Development, Vol. 1, New York, January 1958.

[4] Innes, *op. cit.,* p. 35.

[5] Mr. David Rockefeller, President and Chairman of the Executive Committee, Chase Manhattan Bank, New York, N. Y.

[6] In this study estimates of actual construction activity are only available through the end of 1960, even though data on the sources of financing are available through the end of 1962. In order to make the data comparable in analyzing the financing of construction activity only the data for the period ending 1960 will be used here.

[7] The private construction started in urban renewal areas before 1954 is summarized:

State	*Total Construction Started (thousands of dollars)*	*Residential*	*Commercial*	*Industrial*
New York	$64,500	$64,000	$ 500	$ —
Illinois	22,915	22,000	2,915	—
Virginia	10,137	—	6,575	3,562
TOTAL	$97,552	$86,000	$9,990	$3,562

SOURCE: Physical Progress Quarterly Reports (unpublished), Urban Renewal Administration, Form H-6000, Washington, D. C., March 31, 1961.

[8] Interview, Mr. John Tyler, Loans Manager, Federal National Mortgage Association, Washington, D. C., March 1, 1962.

[9] News Release HHFA-URA-No. 62-568, Urban Renewal Administration, Washington 25, D. C., Wednesday P.M., October 3, 1962.

[10] *16th Annual Report,* 1962, Housing and Home Finance Agency, Washington 25, D. C., p. 43.

[11] *Quarterly Report of the Federal National Mortgage Association,* Status of Mortgages in Portfolio, December 31, 1962.

[12] *16th Annual Report,* 1962, Housing and Home Finance Agency, Washington 25, D. C., p. 43.

[13] *Urban Renewal Project Characteristics,* Urban Renewal Administration, Washington 25, D. C., December 31, 1962, Table 3, p. 9.

[14] George M. Brady, Jr., Vice-President, James Rouse and Co., Washington, D. C., "Entrepreneurial Considerations in Commercial Redevelopment," *Private Financing Considerations in Urban Renewal,* 6th Annual NAHRO Conference, April 16–18, 1961.

[15] *Note:* No allowance has been made for the small percentage of equity money supplied by the private developers.

[16] Johnson, T. F., J. R. Morris, J. G. Butts, *Renewing America's Cities,* The Institute for Social Science Research, Washington, D. C., 1962, p. 79.

[17] "Investment Needs in Urban Renewal," Remarks by William L. Slayton, Commissioner, Urban Renewal Administration, Housing and Home Finance Agency, at the Urban Renewal Seminar sponsored by the Mortgage Bankers Association of America in Cooperation with ACTION, Inc., Chase-Park Plaza Hotel, St. Louis, Missouri, Wednesday, February 21, 1962.

CHAPTER NINE

REHABILITATION

Behold, I make all things new.

Revelation 21:5

As signs developed indicating that urban renewal by clearance was not working effectively, more emphasis was placed on an attempt to rehabilitate existing structures. Perhaps the primary spur behind this shift in emphasis was the growing amount of political opposition to large-scale clearance programs which made many thousands of people homeless. Another factor was the apparent lack of demand necessary to absorb the vacant urban land that would be created if urban renewal by clearance was expanded greatly. It was felt that the only answer was to convince existing owners and tenants to rehabilitate their property. Today, rehabilitation is often held out as the only feasible solution to the problem of deteriorated housing — housing that is not bad enough to justify tearing it down and not good enough to measure up to certain standards prescribed by the Census Bureau or some local public agency. For now the question of what the standards should be and who should develop them will not be considered. In a recent speech Robert Weaver, Administrator of the Housing and Home Finance Agency, stated:

> It is clearly impossible for us to replace this deteriorating segment of our housing supply, while building for our rapidly

> expanding population. The housing needs of Americans can only be met by the rehabilitation of that part of our housing which is worth saving, coupled with the replacement of the housing which is not worth saving . . . *rehabilitation will work because it has to work* if we are to establish and maintain healthy cities.[1]

The federal government is now committed to a policy of conservation and rehabilitation as well as redevelopment in its urban renewal program, and is attempting to put these policies into effect. The basic tools for rehabilitating large areas of urban land that have been classified as "blighted" were given to cities by the Housing Act of 1954. How effective have they been?

So far, progress in federally assisted rehabilitation has not been at all encouraging. Even when allowance is made for the five-year head start that the redevelopment phase of the program had over the rehabilitation and conservation phase, it is clear that the rehabilitation program is lagging badly, and shows no signs of significantly enlarging the supply of good housing.

As of December 31, 1959, 157 urban renewal projects involved some federally assisted rehabilitation. Within these projects were 119,314 homes that the officials of local renewal agencies had decided to rehabilitate rather than demolish. Of these 119,314 homes, the local renewal officials had decided that 91,769 needed rehabilitation of some kind. Only a small portion of these plans have been realized. Of the 91,769 homes that were considered to need rehabilitation, only 6,027 or 6.6 per cent have actually been rehabilitated. Another 4,662 were in the process of being rehabilitated as of the reporting date. Nothing has been done on the remaining 81,080 homes.[2]

By December 31, 1962, the number of urban renewal projects involving rehabilitation had increased to 225; the total number of units in these projects exceeded 148,000. According to the Urban Renewal Administration, nearly 25,000 or 16.9 per cent had actually been rehabilitated.[3] Thus, during a period of time when major stress was being placed on the rehabilitation aspect of urban renewal, less than 19,000 homes were rehabilitated in three years.

The relative importance of this amount of rehabilitation to

the amount of deteriorating homes or to the amount of rehabilitation accomplished by private market forces operating independently of the program is extremely small. From 1950 to 1960 an estimated 6.6 million substandard dwelling units were rehabilitated and 2.6 million others were removed through demolition, merger, or other means. Virtually all of this was done by private market forces. During the same ten-year period it is also estimated that 2.25 million standard dwelling units became substandard and another 1.5 million substandard units were constructed. The result of all this was a net reduction of 5.45 million substandard dwelling units. The projected net reduction in substandard dwelling units for the decade 1960 to 1970 is 6 million.[4]

Today there are still approximately 11 million substandard homes in the country. If the present rate of about six thousand homes per year is maintained, it would take the federal urban renewal program over eighteen hundred years to rehabilitate the existing inventory of substandard homes. This, of course, is an extreme comparison, and does not account for the fact that the program can grow and become more effective and that the inventory of substandard homes will be reduced substantially by private efforts. However, it does point out clearly that the primary effort will probably come from private sources, with the federal program playing a small and perhaps insignificant role.

The Economics of Rehabilitation

The feasibility of rehabilitation is determined largely by economics. It is a function of how much money is needed and how much is available. Privately financed rehabilitation without federal aids works primarily because it is initiated by people who desire the improvements and are willing and able to pay for them. The major reason why progress has been so slow in the rehabilitation phase of urban renewal is that rehabilitation has so far depended primarily upon voluntary expenditures by private owners and code enforcement by local governments.[5] Private owners are usually receptive to the idea of rehabilitation

until they realize that they must spend a substantial amount of *their* money to improve their property. Then they balk. Some of these residents simply do not have enough money; others would rather spend it on other things. This leaves the officials of the local renewal agency two recourses:

1. They can face the fact that they cannot achieve rehabilitation when and where they desire it.
2. They can attempt to make it work with the aid of financial subsidies from the federal government and code enforcement by the local government.

The primary purpose of the federal rehabilitation program is to make it economically feasible for people to rehabilitate their homes and keep on living in them. It appears that the federal government realizes that this would be impossible without extensive public action financed generously by federal subsidies. Under the Housing Act the Federal Housing Administration is authorized to insure, within certain limits, mortgages made by private financial institutions to finance improvements to residential structures in urban renewal areas. The Act also authorizes the Federal Housing Administration to insure mortgages that will refinance the existing mortgage. A homeowner in an urban renewal area can secure a loan, insured by the Federal Housing Administration, for an amount equal to the cost of rehabilitation plus the amount of the outstanding mortgage.

For private owners in an urban renewal area, the most favorable terms on which financing can be obtained are those on mortgages insured by the Federal Housing Administration under Section 220. As of June 1961, the interest rate was 5¼ per cent plus an insurance premium of ½ per cent on the outstanding balance. These mortgages could be amortized over thirty years, or three fourths of the estimated remaining life of the property, whichever was less.[6]

Let us examine the rationale behind this plan. It appears that the originators of the plan have assumed that a substantial number of homeowners in slum areas want to improve their property but cannot because they do not have enough money and can-

not get a loan. That a substantial number of slum dwellers really want to allocate a significant part of their income to improve their property is debatable. The most optimistic assumption one could make is that all of the propetry owners have a strong desire to improve their property and are prevented from doing so only because their incomes are so low that they need every dollar just to exist, or that they could afford it but are unable to secure the necessary financing.

It is hoped that the rehabilitation program can accomplish two things:

1. Make financing available for those who can afford it.
2. Make the financing so advantageous through federal subsidies that it will be possible for the owners to improve their property substantially without any increase in monthly payments. In some cases it is hoped that there will be an actual decrease in monthly payments after refinancing, thus providing a strong incentive to rehabilitate. How is this done?

It can be done in two ways:

1. By making mortgage money available at lower subsidized interest rates.
2. By extending the length of time over which the loan must be repaid.

Many of the properties in slum areas now carry mortgages with relatively high rates of interest and which extend over relatively short periods of time. This is primarily because private leading institutions feel that loans of this nature are more costly to make and involve more risk than other types of loans. Typically the mortgage is for a relatively small amount, and thus the profit for the lending institution is proportionately small. But in spite of this it usually requires as much, if not more, time to initiate and service the small loan as it would for a larger loan. The credit capacity of the property owners in slum areas and the chance that they will pay off the loan are usually less than in more prosperous areas. Because of these two factors, lending institutions are wary of lending small amounts to homeowners

in slums, and when they do lend, it is usually for a relatively short period of time at a fairly high rate of interest.

The lure of lower monthly payments would surely be attractive to some homeowners in slums, and could cause a substantial amount of rehabilitation if the money were available. But will private financial institutions increase the amount of the mortgage, lower the interest rate, and lengthen the loan period on property to which they originally assigned a high risk? It is difficult to say what will happen in the future, but the limited experience that the government has had with the program to date has been discouraging. It appears that other investment alternatives have been more attractive to the financial institutions operating in this area. According to the present Administrator of the Housing and Home Finance Agency:

> To facilitate rehabilitation, the Housing Act of 1961 included a provision for insurance by FHA . . . *Unfortunately, the financial institutions have been slow to support this program.*[7] [My italics.]

It appears unlikely that private lending institutions will provide the funds unless interest rates rise so high that lending institutions, in their quest for lending opportunities, may find these loans attractive. But unless this happens where will the money come from?

As an inducement to private lending institutions, the Housing Act of 1961 authorized the Federal National Mortgage Association to purchase loans insured by the Federal Housing Administration under Section 220. As an additional incentive, the Federal Housing Administration is also authorized to pay the lender in cash in case the loan goes into default, rather than in long-term government obligations. It is doubtful if the cash payment proviso will have any substantial effect on the policy of lending institutions. The effect of allowing the Federal National Mortgage Association to purchase this type of mortgage will probably be the same as it has been for mortgages on new construction in urban renewal areas; that is, the Federal National Mortgage Association will purchase many of the mortgages. In effect then,

the federal government will be providing long-term financing at below market rates.

Under the present rehabilitation program of the federal government the economic feasibility of improving any home substantially depends upon three major factors. First, the increase in monthly payments for housing must not be larger than an owner-occupant can afford to pay or larger than an amount that an absentee owner can recover in rents which existing or prospective tenants can be reasonably expected to pay. Second, sufficient funds must be available from private lending institutions to finance the necessary repairs. Even if the residents and landlords are willing to increase their monthly mortgage payments and the Federal Housing Administration is willing to insure the loan, nothing will be done unless the private lending institutions actually put up the money. Third, the ratio of the new mortgage to the estimated value of the property after rehabilitation must be within the limit permitted by the regulations of the Federal Housing Administration.[8]

No matter how much a community wants to improve its housing, rehabilitation will occur only if it is possible to finance the cost of the repairs needed to meet the desired standards. It is unlikely that many owners of slum property could afford to repair their homes out of savings or current income. Thus it is necessary for the improvements to be financed by a mortgage.

Whether or not a private lending institution will loan money for rehabilitation purposes depends upon a number of things. The relationship between the value of the property after rehabilitation and the amount of the loan must be such that it is legally permissible as well as acceptable to the lending institutions. The loan-value ratio after rehabilitation will be determined by the following factors:

1. The value of the property before rehabilitation plus the value added by the improvements.
2. The amount of equity that the owner has in the property.

The difference between the value of the property after rehabilita-

tion and the amount of equity the owner has invested in it is the amount of the loan needed. If the loan-value ratio is legally permissible and is acceptable to the lending institution, the next step is to ascertain if the owners will be able to pay back the money they have borrowed. The income of owner-occupants of slum housing is usually low, and even a small increase in their monthly housing bill will probably be high in relation to their income. Thus owner-occupants are not likely to be able, or willing, to increase their monthly housing bill, even if they desire the improvements. Housing improvements must compete with other alternative expenditures such as food, clothing, and entertainment. It might be possible for absentee owners to increase rents to recoup their investment, but it is unlikely that the *present* tenants would be able to afford the increase that would occur in the rents.

There are three other factors that tend to make rehabilitation economically unfeasible. First, the local renewal agency's concept of rehabilitation is likely to include the attractiveness of the house as well as whether or not the house meets the minimum code requirements of the locality. And an attractive appearance is usually expensive to achieve. Second, because rehabilitation increases the value of the structure, the assessment for real estate tax purposes will also rise unless the city makes special provisions exempting rehabilitated property from increases in real estate taxes. If taxes did increase, the owner's monthly tax bill would increase, and this increase would in large measure be passed on to the tenant as the landlord attempted to cover his increased tax expense. Third, even in cases where monthly housing expenses would not increase after rehabilitation (real estate taxes do not increase and mortgage payments stay the same or decrease because of the publicly subsidized financing), the value of the property will probably increase. And, if the value of the property increases, it is very doubtful if the landlord will continue to charge the same rent unless compelled to do so. This would be especially true if the whole area became a very desirable place to live, and people with more money than the present occupants began bidding for the right to live there.

Unless strict rent controls were established, it is very likely that rents would rise in roughly the same proportion that value increased.

A Case Study

Recently an extensive study was made of a proposed rehabilitation project in Boston by Chester Rapkin, a noted housing economist, to determine the project's economic feasibility. The project is typical of those usually marked for renewal activities. Seventy-one per cent of the population is Negro and 16 per cent of the dwelling units are substandard. The level of income in the area is relatively low and the monthly rents are relatively high. The median rent-income ratio is 0.30, which means that about half of the families in the area pay over 30 per cent of their income for household expenses. Detailed information on the distribution of family income, monthly rent, rent-income ratio and the condition of the housing can be found in Tables A.15 and A.16 in Appendix A.

Rapkin estimates that rehabilitation of from 35 to 46 per cent of the buildings would *not* be feasible for one or more of the following reasons:

1. The necessary loan exceeds the amount which can be insured by FHA.
2. There is an increase in the debt service of currently mortgaged properties.
3. There is an increase of $10 or more in rent per month for currently nonmortgaged properties.

If real estate taxes were also allowed to increase (Boston has a policy that probably would not allow this), fully 68 per cent of the structures become economically unfeasible to rehabilitate. Rapkin's definition of feasibility is as follows: the rehabilitation of a structure is considered economically feasible if it does not require any increase in rents or housing costs for currently mortgaged property, and increases of not more than $10 per month for property that is presently not mortgaged. Approximately 60

per cent of the dwelling units are mortgaged. He feels that this definition is realistic in view of the rent-paying ability of the present residents. Of course, if the definition were made less rigorous, economic feasibility, on paper anyway, would appear much greater. Under current plans the worst of the buildings and those on sites needed for community facilities will be demolished. People now living in these homes will have to find housing elsewhere. Speaking on this problem, Rapkin states:

> Complicated both by their low income and by discrimination against them in the housing market because of their race, at best their relocation will be exceedingly difficult. *If a general rise in rents in the area added a substantial number to those seeking new homes, satisfactory relocation would be almost impossible.*[9] [My italics.]

The Future of Rehabilitation — Three Possibilities

There appear to be three distinct possibilities for the future of rehabilitation under the federal urban renewal program:

1. The program will continue to follow its present pattern except that large amounts of private funds will become available for financing the program.
2. Private funds will not be forthcoming in large amounts, and the federal government will be required to step in with substantial amounts of federal money to subsidize the process.
3. Neither private nor public money will be forthcoming in large amounts, and the federally aided program will essentially come to a halt.

The following section is devoted to an analysis of each one of these possible alternatives. An attempt will be made to evaluate the probabilities and possible consequences of each alternative.

The first alternative assumes that large quantities of private funds will become available for rehabilitation. Before assessing the probability of this, let us take a look at some of the possible consequences, because even if sufficient financing is available, some serious problems remain. For a considerable number of the residents of the slum area, rehabilitation will mean an increase

in monthly payments. Homeowners who do not wish to fix up their homes extensively, yet have enough money to do so, have two choices:

1. They can sell their home and move.
2. They can divert money from other uses and spend it on improvements.

For those people who are unable to afford the increase in monthly payments, there is no choice; they will be required to move. The local renewal agency has the power to seize the property, rehabilitate, and then sell it to some other private individual. *In essence, the federal rehabilitation program forces the property owner either to fix up or sell out. If the property owner is an occupant, he is forced to fix up or move out. For tenants the edict is pay more or move out.*

The problems created by rehabilitation are directly analogous to those created by the typical redevelopment project that acquires properties, destroys the buildings, improves the land, and then sells the land to other private individuals. The people who are required to move by rehabilitation must, of course, move to a neighborhood that they can afford. This can easily lead to overcrowding and deterioration in the neighborhood to which they move.

In some cities rehabilitation appears to be working, but it has not been accomplished without cost. So far the techniques used to achieve effective rehabilitation have been practiced on only a relatively small scale. The small amounts of rehabilitation that have been accomplished so far have made it fairly clear that a large amount of persuasion and coercion is necessary. For example, New Haven, Connecticut, has often been referred to as the outstanding example of urban renewal in the country, and there are indications that they have made some progress in rehabilitation. But the measures necessary to do this raise some questions about the concept of rehabilitation as it is now practiced. According to Mary S. Hommann, Director of the Wooster Square Project in New Haven:

> In New Haven, the rehabilitation staff starts out with an estab-

> lished city law, the housing code. . . . The code is enforceable through the courts, where *punishment can consist of both fine and imprisonment.* Rehabilitation by homeowners would be impossible without the housing code and a municipal administration with the will and strength to *enforce it broadside.* . . . We have another legal recourse for properties whose owners refuse *or are unable* to rehabilitate to code standards. Under the official renewal plan, the agency can purchase such properties through eminent domain. *Thus we carry a big stick — in fact, two big sticks — and can afford to speak softly.*[10]

This "big stick" attitude may produce results, but if rehabilitation, as now practiced, was ever tried on a large scale, it seems likely that it would eventually generate intense resentment among the people it affected.

Up to this point it has been assumed that sufficient money was available to carry out rehabilitation. The important question now is whether or not the private lending institutions will provide sufficiently large amounts of funds. The prospect of this happening in the near future is not good for the following reasons. There is a great deal of uncertainty attached to the whole concept of urban rehabilitation, and most lending institutions are apt to view it as a very risky business. And even if the prospects of repayment of the loan were very high, the lending institutions would still not find it too appealing because the amount of the typical loan would be so low that the profit they could make on the loan would not justify the cost of writing it. Another problem that bothers lenders is that of obtaining fire and casualty insurance in the rehabilitation area. This problem results from the relatively low quality of the housing and the surrounding environment. This problem might be eased if substantial rehabilitation occurred, but the lending institutions are looking at what probably will be, not what might be. In conclusion, it is doubtful if private financing for rehabilitation will be forthcoming in significant amounts.

If the rehabilitation program is to proceed and produce rehabilitated apartments and houses, there is only one logical alternative left — money from the taxpayers. Large amounts of money must be given to slum dwellers by means of outright

grants, subsidized loans, lower tax assessments, or some combination of all three. This could be done by raising taxes, increasing the public debt, or diverting funds from some other public use. Strict rent controls would have to be imposed or else rents would rise as the values of the structures increased through rehabilitation.

There are approximately ten million homes in the country that would require this treatment. Let us conservatively estimate that the average outstanding mortgage on these homes is about $4,000 and that the average cost of repairs would be about $2,000. This alone would *require about $60 billion worth of public financing and outright grants* over whatever period was chosen to effectuate the measure. It is extremely doubtful if funds of this magnitude could be obtained when consideration is taken of the demands that other public programs make upon the tax and credit resources of the United States. No doubt, it could be done if the people of the United States were willing to sacrifice a substantial amount of their money and freedom, but at present there are no such indications, and it seems doubtful that they will materialize in the near future.

This leaves one remaining alternative. It may be necessary to face the fact that planned rehabilitation is not possible, or even desirable. It is very likely that the private market will, as it has done in the past, provide almost all of the increase in housing quality. This, of course, is an evolutionary process and is based primarily on the principle that people get the housing that they can both afford and desire.

Rehabilitation is not very different in its end effects from clearance and redevelopment. If successful, it either forces people to pay higher rents or it forces them to move to a neighborhood with conditions similar to the present one before it was renewed. The key to rehabilitation is money — lots of it. Generally speaking, it appears that federally aided rehabilitation has not worked effectively because it has been primarily directed at improving properties owned and occupied by people who desire improvements but are either unwilling or unable to pay for them. A substantial amount of either private or public money is needed

to effectuate the process, and present indications are that neither will be forthcoming. It appears that the benefits of rehabilitation through the federal urban renewal program will be very small relative to the job that needs to be done and is being done by private interests. At the same time, the costs — both social and economic — of federally aided rehabilitation appear to be high compared with the benefits.

Chapter Nine Notes

[1] "The Urban Frontier," Address by Robert C. Weaver, Administrator, Housing and Home Finance Agency, before the Worcester Economic Club, Sheraton-Bancroft Hotel, Worcester, Massachusetts, March 8, 1962.

[2] Innes, John W., *Urban Renewal Policies and Programs in the U.S.A.*, Urban Renewal Administration, Washington 25, D. C., November 1960, p. 4.

[3] *16th Annual Report*, 1962, Housing and Home Finance Agency, Washington 25, D. C., p. 286.

[4] "Housing Legislation of 1961," Hearings before a Subcommittee of the Committee on Banking and Currency, United States Senate, April 4, 5, 6, 10, 11, 12, 13, 14 and 20, 1961.

[5] Innes, *loc. cit.*

[6] Rapkin, Chester, *The Washington Park Urban Renewal Area: An Analysis of the Economic, Financial and Community Factors That Will Influence the Feasibility of Residential Renewal*, December 1961, p. 43.

[7] Robert C. Weaver, *loc. cit.*

[8] Rapkin, *op. cit.*, p. 88.

[9] *Ibid.*

[10] Hommann, Mary S., Director, Wooster Square Project, New Haven Redevelopment Agency, *Journal of Housing*, Vol. 19 (May 1962), p. 185.

CHAPTER TEN

THE TAX INCREASE MYTH

Those that much covet are with gain so fond
For what they have not,
  that which they possess
They scatter and unloose it from their bond
And so,
  by hoping more,
  they have but less.

Shakespeare

One of the most persuasive arguments presented by those who favor the federal urban renewal program is the argument that urban renewal will strengthen and increase the tax base and thus the tax revenues of the city. This one argument has probably been the single most important factor in inducing mayors of cities, as well as state and federal government officials, to accept the concept of urban renewal with federal aid. The thought of bright and orderly new buildings pouring tax revenues into the city treasury has been too much of a temptation to resist. In April of 1961 Governor David L. Lawrence of Pennsylvania stated:

> It [urban renewal] is the central city's only hope for maintaining its economic base, adding to its tax base, attracting to the city a cross-section of residents of every income group . . . successful urban renewal is an astonishing producer of public revenues.[1]

Unfortunately for Governor Lawrence, and others like him

who firmly believe that a thoroughly executed urban renewal program will provide the answer to the cities' financial woes, the facts point the other way. Although it is too early to be sure of the effect that federal urban renewal programs will have on the cities' tax bases, experience with the program up to March of 1961 gives an indication of what might be expected. As of March 1961, the facts show that the federal urban renewal program has actually decreased the amount of revenue flowing into the cities' tax coffers. Although the estimates used to arrive at this conclusion are admittedly rough, the order of magnitude is so large that it would be difficult to come to any other conclusion. Let us take a look at what has happened.

Either a city has a federal urban renewal program or it does not have a program; and the relevant question to ask is what effect each alternative will have on the total tax revenues and expenses of the city; in other words, which alternative results in the lowest tax burden on the city taxpayers? Insofar as possible, an analysis of the tax effects of urban renewal should consider the effect on the total tax revenues of the city. Although it is not possible to pinpoint the precise answer, it is possible to develop some estimates which will at least provide an approximation.

Generally, the proponents of urban renewal compare only the annual tax revenue from the renewal site before the program starts to the *expected* annual tax revenue after the program is completed, and generally these estimates of expected revenues are quite optimistic and little is ever said about the long length of time that will pass before this expected tax revenue will be forthcoming. This was vividly demonstrated when we compared the estimated amount of construction started with the amount torn down — obviously if new construction is expected to replace the old construction, it will be worth considerably more. The real question is when will the new construction be completed? Some will argue at this point that it is not fair to compare the amount of real estate destroyed with the amount constructed at any point in time, because of the long time delay between demolition and construction; they will say that if, for example, you destroy $100,000 worth of taxable property now

and you expect to put up $200,000 in five years, that you will necessarily be in the red for the first five years and that this will be taken care of eventually. What they say is partially true — the value of all the new construction, if and when it is completed, will almost always be higher than the value of the real estate that was destroyed — but they fail to account for two things: first, that the program is expanding and that demolition will exceed construction as long as it continues to expand; and second, that you must consider the taxes that are lost to the city while waiting for the new buildings to rise.

The comparison of annual tax revenue from the selected site before and after urban renewal is a questionable procedure because of the factors that it neglects. The purpose of this section is to isolate some other important factors and to determine their impact on the tax revenue that might be forthcoming from the urban renewal site. Some of these effects will be positive, some will be negative. The *net* increase in tax revenue to the city from urban renewal can be ascertained by summing both the positive and negative effects of urban renewal on the total city tax revenue.

The fact that demolition activities precede construction activities by several years means that, as long as the program continues to expand and retain its present characteristics, the effective tax value of the real estate destroyed is likely to remain ahead of the effective tax value of the real estate created. This is analogous to the whole issue of low-rent housing discussed earlier, showing that because of the destruction of old dwelling units and the construction of new ones it was obvious that the program actually aggravated the housing problem for people in low-income groups. This problem is further complicated by the fact that the rents in the new buildings are almost always far out of reach of the people who are forced by the government to move from the urban renewal area.

Taxes are not paid on nonexistent buildings, and when the urban renewal bulldozers sweep through an area of the city, the tax revenue to the city decreases by the amount of taxes that were previously paid on the demolished buildings. This loss of

tax revenue continues until these old buildings are replaced by new ones, and this loss must be considered in any evaluation of the tax effects. The amount of taxes lost to the city during this time must be made up by the future increase in taxes expected from the new buildings. This is a point that is often omitted in the calculations of the tax gains from urban renewal, and it should be carefully watched by any city contemplating the program. And the important thing is that the tax revenues are lost at a time when they are supposedly most needed: now.

Most cities embarking on an urban renewal program complain of financial difficulties, yet they hopefully embrace a program that is almost certain to cost them money during the first several years of operation, in spite of the federal subsidy from the rest of the taxpayers throughout the country. Of course, they do this with the expectation of reaping great gains in the future, but they should clearly recognize that a dollar lost this year is more valuable than one gained five or ten or fifteen years from now, and adjust their calculations accordingly. Notice that we have said nothing about the initial cost of the project which the city must pay for in addition to the lost tax revenues. To properly evaluate the effect on the city treasury, and ultimately on the city taxpayers' pocketbook, the city's share of net project cost would have to be considered as part of the total cost incurred by the city.

Although there are other factors that have an effect on the change in city tax revenues before urban renewal to after urban renewal, the most important factor is the change in the effective value of the city's taxable property over time. Notice that there are two important considerations here: the absolute amount of the change and when in time the change takes place. The absolute amount of change needs little explanation: all other things being equal, the higher the value of the tax base, the better it is for the city as far as tax revenue goes.

Now let us take a look at what has been happening in urban renewal areas throughout the country. At the end of 1960 approximately 126,000 dwelling units had been destroyed in federal urban renewal areas, thereby effectively eliminating them from

the tax rolls. How much of a decline in real estate values was caused by this destruction? The federal government does not publish figures on this, so it will be necessary to make some estimates. At the end of 1960 approximately $1.47 billion was expected to be spent on acquiring the real estate in the 485 projects for which data were available. Of these 485 projects, 415 submitted reports on the number of dwelling units that were to be destroyed. There were about 215,000 dwelling units marked for destruction in these 415 projects, or 518 dwelling units per project. If we assume that the 70 projects which did not submit data averaged the same number of dwelling units per project, we could conclude that there are approximately 250,000 dwelling units in all of the 485 projects. And, of the approximately 250,000 dwelling units marked for destruction, a little over half, or 126,000, had been destroyed by the end of 1960. Now, of course, other types of real estate, such as commercial and industrial buildings, were also torn down; unfortunately though, there is presently no data available that would give us a clear idea of the extent of this type of destruction. Therefore, in lieu of better data, let us use the destruction activity in dwelling units as a barometer of total destruction activity, and say that approximately half of the planned destruction in these 485 projects had been accomplished by the end of 1960.

If we now assume that the price that the local renewal agencies expect to pay for the real estate they acquire is a fair approximation of the market value of the property, we could conclude that, if half of it has been destroyed, real estate valued at $735 million (50 per cent of $1.47 billion) had been destroyed by the end of 1960. This figure, while admittedly uncertain, would not appear to be far from what has actually happened. For example, if the 126,000 units destroyed were valued at say only $5,000 per unit, this would still result in a loss of $630 million of real estate without even considering the value of the commercial and industrial property that was destroyed.

The net result of this is that cities throughout the United States have lost the tax revenues which were coming to them from approximately $650–$700 million of urban real estate. How

long will this loss continue? How much of it has been compensated for by the new building in federal urban renewal areas?

Going back to our discussion in Chapter 6 of the amounts of new construction actually started in urban renewal areas, we see that of the $824 million started, only about $577 million was new private construction, that is, construction on which taxes are paid. And we must remember that $577 million is the value of the amount started, not completed. If, for example, a $10-million apartment complex had been started and only $1 million had actually been spent, the project would add $10 million to our total amount started, not $1 million. It is also true that a large part of the new construction was started recently, and thus it is unlikely that a great deal of it has been finished. But, as an approximation, let us optimistically assume 70 per cent of the total amount of private construction started had actually been finished by the end of 1960. This would have resulted in about $400 million of new taxable construction.

As we shall see later this $400 million figure is probably much higher than it should be, but for now let us use it as an optimistic estimate. It is obvious that something is seriously wrong with the effect that the federal urban renewal program had on the tax revenue of cities by the end of 1960; if you destroy $650–$700 million of real estate and construct about $400 million, it is apparent that tax revenues must decrease.

We are not through yet. There are still several other items that will cause further strain on the city's treasury. Where do the new tenants of the buildings constructed on urban renewal sites come from? Most of them probably move from other parts of the city. And unless the vacancies they create are filled by similar tenants from outside the city, the value of the older buildings they vacate may decline, thereby decreasing the tax revenues from the buildings from which they move. These effects are generally subtle and difficult to measure; but their net effect is to offset the effect of any increase in tax revenues from an urban renewal project.

And as we will see in Chapter 11, the value of the new buildings erected on urban renewal sites is not a net addition to the

city's tax base. A substantial part of this construction, estimated to be 50 per cent, would probably have been built somewhere else in the city even without the urban renewal program. The construction of new buildings within an urban renewal area depends directly on the demand for the type of construction that goes up. If a private developer feels that there is sufficient demand for a 100-family apartment house at a fairly high rent level in an urban renewal area, it is very likely that he or some other developer would have arrived at that same conclusion in the absence of a local renewal program. In other words, if there is a strong demand for new apartments and the people that are demanding them are able to pay for them, it will not be too long before someone steps in to satisfy their demand. Thus, it seems likely that a great many of the new buildings within an urban renewal area have merely been shifted from some other part of the city. Because of this the net increase in tax revenue to the city from an urban renewal area is very apt to be considerably less than a quick glance at the figures would indicate. For example, if half of the new urban renewal construction would have been built elsewhere, without a comparable amount of destruction, the increase in taxable property would be reduced from $400 million to $200 million. Of course, some of this construction would also make it necessary to destroy some tax-producing property so that the decrease would not be quite so drastic. However, there would be no direct project costs to the taxpayers, and it is likely that a private developer would not allow the land to lie vacant for long. Every day the land lies vacant for him means a loss in potential revenue, and this incentive is usually strong enough to spur him to fast, efficient action. No such incentive exists in the federal urban renewal program.

Still another factor that tends to reduce the net increase in tax revenue is the amount of real estate tax concession that is usually granted on new urban renewal construction. For example, some cities give tax concessions which provide for a real estate tax payment that is equal to 20 per cent of the effective gross rental income of the property. At times, there may be an additional proviso for tax payments on the assessed value, say $10

a thousand. These special tax abatements favoring the owners of urban renewal real estate can cause the normal tax payments, if it were paid on equivalent property, to be reduced as much as 40 or 50 per cent. Thus, even in a case where the value of the new construction was higher than the value of the old buildings destroyed, it is possible that the actual money paid to the city in taxes after urban renewal can be less than it was before the program started. These special tax concessions are usually necessary to induce private developers to invest because of the lack of demand for apartments and other building space within the urban renewal area.

This decrease in tax payment gives the urban renewal building a significant competitive advantage over similar real estate in other parts of the city. Because of this it tends to inhibit the construction of conventionally financed buildings, which would pay the full tax load, in other areas of the city. This effect will, of course, tend to decrease the future rate of growth of the city's tax base.

It has also been claimed that the city which has an aggressive urban renewal program will be able to attract construction that might have gone to some other city in the absence of such a program. This argument would have some validity if only one or a few cities had urban renewal programs. But the validity of the argument decreases in proportion to the number of cities that have programs. As the urban renewal program grows, more and more cities can make land available at bargain prices to developers. As they do so, the competitive advantage of any one city diminishes. This is analogous to large food store chains giving trading stamps with food purchases. As long as only one chain used the technique, it had a slight competitive advantage over other chains. But as all the major chains adopted trading stamps, the competitive advantage of any one chain disappeared, and the net result was a slight rise in food prices to compensate for the cost of having trading stamps. Since at present (1964) over 750 cities have urban renewal programs, it seems very doubtful that any one city reaps much competitive advantage through its program.

On the other hand, there are some factors connected with urban renewal which might increase the tax revenue to the city. The value of a piece of real estate is often affected by its immediate surroundings. If an urban renewal project is successfully carried through to completion, it is likely that the injection of a complex of modern, bright buildings will have a beneficial effect on the surrounding property values. But for this to be manifested in an actual increase in taxes, two things are necessary: first, a sizable area of the city must be renewed (and this has not been done yet to a significant extent in any city); and second, the local board of assessors must raise the assessed valuation of the buildings lying in the area surrounding the urban renewal project. Usually most of the buildings surrounding any urban renewal area are in nearly the same condition as the buildings that were torn down in the urban renewal area. Thus the inhabitants are likely to have relatively low incomes, and any rise in the landlord's tax bill is likely to cause some rise in the rents of the apartments. This, of course, will make it necessary for a certain number of the tenants to move, simply because the upgrading of the general neighborhood has priced it out of their range.

Proponents of federally aided urban renewal also point out that city expenses are disproportionately high within areas designated for urban renewal, implying that over-all city expenses will be lowered after urban renewal is complete. This, in turn, implies the possibility of a decrease in taxes. It is true that so-called slum areas of cities usually account for a disproportionate share of the city's expense burden. For example, it has often been pointed out that the crime rate, the disease rate, the number of fires, and the amount of juvenile delinquency is usually considerably higher in these areas. The relevant question here is whether the primary cause can be traced to the physical characteristics of the neighborhood, or to the people living there. If people are forced to move from one area of the city where the crime rate is high, will the crime rate miraculously plummet, or will it go up in the area of the city to which these people move? Will you now need more policemen and firemen in some other

areas of the city? These questions are extremely difficult to find any precise answers to, but it seems clear that the expenses of running a city are not likely to be reduced much by simply shifting people from one section to another. Of course, some cities believe that once the people are forced out of their homes, they will leave the city and go elsewhere — but the question remains, where else, and what happens to that area?

Now let us take a look at what happens to city tax revenues in a specific case. While I was at the Joint Center for Urban Studies of M.I.T. and Harvard, I decided to investigate the tax implications of a nearby project involving the redevelopment of Boston's West End. The 48-acre West End Project was a working-class residential district in downtown Boston and was covered almost solidly with five-story apartment buildings. About 7,500 people lived there. The plan for redevelopment includes up to 2,400 apartments in modern elevator buildings with rents of about $45 a room and up.

The main points I was interested in were how much the project would cost the city initially, how much tax revenue would be lost, and how much the new buildings would contribute to Boston's tax revenues. Finding this out was slightly difficult; it took the better half of an afternoon in August 1962, during which I talked to nine different people, to discover what the tax revenue had been from the old buildings and what it was expected to be from the new ones. It turned out that before the start of the urban renewal program, the annual taxes from the West End were about $546,000. The city took the land in the West End under eminent domain in May 1958. Assuming that taxes would have remained at the same level, this means that the City of Boston has been losing approximately $546,000 a year in taxes since May 1958.

The net cost of Boston's West End Project was $15.8 million; $10.5 million was paid by the federal government and the remainder, $5.3 million, was paid by the City of Boston. Thus the West End Project cost the Boston taxpayers about $5.3 million initially plus the estimated tax loss of $546,000 each year since May 1958. What have been the rewards from this investment?

The Boston Renewal Authority told me that the current annual tax revenue (in August 1962) was $225,000 and that it was expected to rise to $1,250,000 a year when all the new construction was complete. This $1,250,000 a year figure, when compared to the previous one of $546,000, looks great at first glance, but let us take a closer look. First of all, it was about three years before the complex of apartment buildings went up; this means that, in addition to the original $5.3 million that was spent, the taxpayers of Boston have suffered an additional loss of about $1.6 million during the time when the first of the new construction was going up. And even after this went up, the tax revenue was only $225,000 a year, leaving a net loss of $321,000 a year. The new construction will probably catch up, and eventually the annual tax revenue will surpass the old figure of $546,000. But when will it happen and how long will it take to break even? Approximately 20 per cent of the intended construction was completed by 1962. Let us make the optimistic assumption that another 20 per cent will be added every two years, so that by 1970 it will be complete. How long will it take under these circumstances for the project to justify itself economically?

Given these figures and assumptions, the West End project of Boston will not break even until about 1980.[2] This calculation does not consider the time value of money; if it were considered, the break-even date would be considerably beyond 1980. Notice that this calculation also assumes that the tax revenue from the West End would not have increased if it had been left alone; this assumption is optimistic, and it is probable that, considering the location of the West End, property values there would have risen a great deal over the 20-year period we are considering. If this fact is taken into account, it is not inconceivable that the West End will not break even until the year 2000 or later; in fact, it is entirely possible that it will never break even on an economic basis. And if we add in the $10.5 million that taxpayers all over the nation contributed, the economic argument becomes even weaker.

These estimates for this particular project in Boston are fairly rough, but they do show clearly that one has to examine any

expected tax gains very carefully. We should also want to consider some of the questions raised earlier in this chapter — where do the tenants come from, what happens to the value of the surrounding real estate, would this construction have gone up anyway, and what happens to city expenses in other areas?

In conclusion, the net tax benefit promised by the proponents of urban renewal is not anywhere likely to be as great as it might appear to be at first glance. Any consideration of the tax factors associated with urban renewal would have to consider the following:

1. Tax losses from real estate destroyed.
2. Tax revenue increases that would have occurred without the urban renewal program.
3. Tax revenue declines due to tenants moving from buildings within the city to buildings within the urban renewal area.
4. The effect of special tax abatements.
5. Possible declines in city expenses.
6. Tax revenue increases because of increases in value of buildings surrounding the urban renewal site.
7. The assessed value of the new construction.

So far the tax increases promised by the federal urban renewal program have been largely a myth; it is doubtful if the program will significantly increase tax revenues to any specific city, and it is very doubtful if the program will increase tax revenues to all cities as a whole.

Chapter Ten Notes

[1] *Private Financing Considerations in Urban Renewal,* A Report of the Proceedings of the 6th Annual NAHRO Conference on Urban Renewal, April 16–18, 1961.

[2] If we let x stand for the length of time that has elapsed since the old buildings were torn down, the following formulas were developed to show the gains and losses of the West End project:

$$\text{Loss} = \$5{,}300{,}000 + \$546{,}000x$$

$$\text{Gain} = \$225{,}000\,(x - 3) + \$250{,}000\,(x - 6) + \$250{,}000\,(x - 8) + \$250{,}000\,(x - 10) + \$275{,}000\,(x - 12)$$

Equating loss to gain and solving for x gives us $x = 21$ years.

CHAPTER ELEVEN

EFFECT ON THE NATIONAL ECONOMY

Urban renewal is not a very rational program if one is thinking of rather quick returns or, I might say, even fairly long-run gains in national product.

Dr. Louis Winnick, Ford Foundation
Conference on Savings and
Residential Financing, 1963 proceedings, p. 125

On February 2, 1961, the Urban Renewal Administration sent a letter to all the local renewal agencies throughout the country urging them to accelerate the pace of their urban renewal activities in order to stimulate the economy.[1] The first paragraph of the letter stated:

> The President has sent a telegram to the Mayors of all communities having projects in execution or for which final plans have been approved, stressing the need for accelerated action to strengthen and revitalize our urban communities as one of the essential steps we must now take to stimulate the Nation's economy and overcome the lag in our basic economic growth and advancement. *This is important not only to the health and strength of our cities, but also to our national economic and social well-being now and in the future.* [My italics.]

This paragraph clearly expresses some of the qualities often attributed to the federal urban renewal program. It implies that accelerated action (of urban renewal) can *strengthen* and

revitalize our cities. In turn, it is assumed that this will *stimulate* the nation's economy and overcome the lag in our basic economic growth. But how will urban renewal strengthen, how will it revitalize, and how will it stimulate? These questions are seldom faced.

To revitalize a city means to give life to it again, implying that the city is dead or dying. How does a city die? There are no precise definitions; some think this means declining economic activity, others declining population, and some would interpret a rise in the proportion of Negroes or Puerto Ricans as a "decline" of the city.

It is probably not the conscious goal of urban officials to increase the population of cities at the expense of suburbs or rural areas, or to attempt to "balance" a community racially, although it may be the unconscious or unspoken goal of some of those concerned. The proponents of urban renewal have been slightly hazy about the meaning of revitalize, but it would seem reasonable to assume that they were speaking primarily of economic activity. If this is true, we would expect to find that the urban renewal program has made a significant contribution toward "revitalizing" cities and stimulating the economy of the United States. If this is not true, we should ask: In what manner does the federal urban renewal program "revitalize" cities?

Our previously developed estimates show that $824 million of urban renewal construction was started before March 1961; this sounds impressive, but how does it compare with other economic activity? Before we can conclude that urban renewal will or will not strengthen, stimulate, and revitalize, we must know its relative importance in the economy of the nation, and particularly in the economy of cities.

During the decade for which we have urban renewal construction estimates, the cumulative Gross National Product of the United States was about $4,377 billion.[2] Even if we do not allow for the fact that not all of the urban renewal construction was completed, urban renewal construction activity accounted for less than two-ten thousandths of all economic activity during the time being considered.

On the other hand, over a billion dollars was spent for non-construction activity, for existing buildings, for demolishing these buildings, for relocating people, and for the salaries of urban renewal officials. About 70 per cent of this money was used to buy the old buildings. The previous owners and the holders of outstanding mortgages, who now have money in place of income-producing buildings or securities, will probably search for ways to invest this money. In effect, large amounts of money have been taken from taxpayers as a whole, given to owners of real estate in "blighted" areas, and are now being invested by the owners of the demolished buildings. It is doubtful whether this has given any real stimulus to the economy.

The money spent to demolish buildings and to hire urban renewal officials may stimulate the demolition industry slightly and increase the demand for city planners and social workers, but again, it is doubtful whether this will stimulate the economy to any noticeable degree.

The major way urban renewal could have an effect on the economy is by initiating and generating construction activity. Has urban renewal played an important role in the construction sector of our economy? From 1950 through 1960, approximately $637,000 million was spent on construction in the United States. This consisted of $324,000 million of private construction, $137,000 million of public construction, and $176,000 million of maintenance and repair work.[3] The time pattern of the United States construction activity, broken down into these three categories, is shown in Figure 11.1. (The dollar amounts are given in Table A.17 in Appendix A.) The growth of construction activity, especially in the private sector, has been rapid and consistent ever since the end of World War II.

The amounts of urban renewal construction started annually during this time has also been plotted on this chart. Inspection of this chart shows clearly that urban renewal construction does not account for a significant proportion of the total. Even if it were assumed that 75 to 80 per cent of the urban renewal construction started has been finished, it would still account for only about one thousandth of all construction activity during

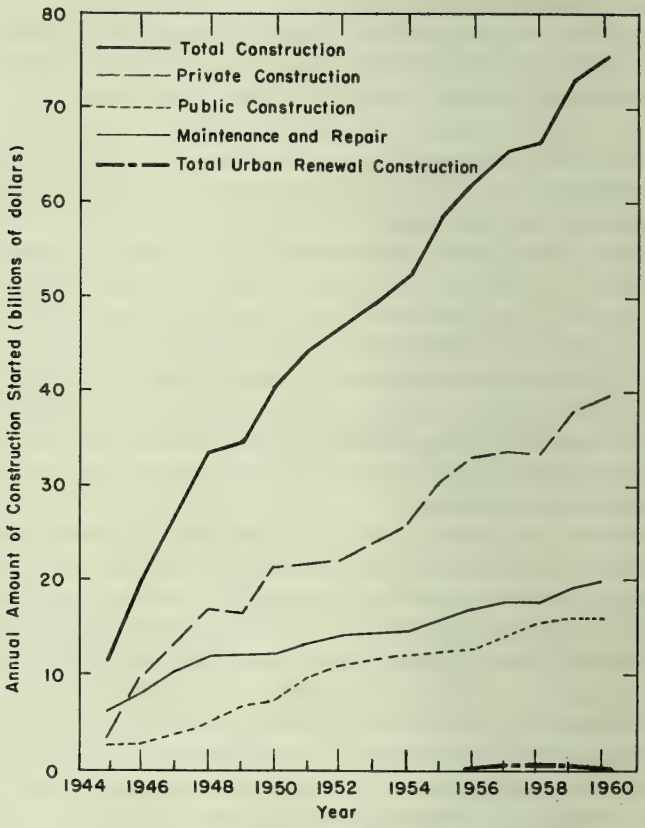


FIGURE 11.1 *Annual construction started in the United States (public, private, and maintenance and repair) compared to annual construction started in urban renewal project areas — 1945 to 1960.*

SOURCE: *Statistical Abstract of the United States,* United States Department of Commerce, Washington 25, D. C., 1961, Table No. 1040, p. 747; *Physical Progress Quarterly Reports* (unpublished), Housing and Home Finance Agency, Urban Renewal Administration, Form H-6000, Washington 25, D. C., March 31, 1961; 191 projects reporting.

this time. Even the amount of money spent on maintenance and repair of existing structures was approximately three hundred times as great as the total spent on all urban renewal construction.

In some ways, however, these comparisons may not be fair ones. All they show is that urban renewal did not contribute significantly to either the economy of the United States or the over-all construction industry during the eleven years from 1950 through 1960. Perhaps a more pertinent question would be: During these years, what portion of the new building construction in cities was built on urban renewal sites?

Approximately $52,600 million of new building construction took place in cities with populations over 100,000 from 1950 to 1960 (see Table A.18 in Appendix A). These valuation figures are derived from estimates of construction costs made by prospective builders when applying for permits to build and value of contracts awarded by the federal government. They do not include land cost. The types of building construction included are residential, commercial, industrial, garages, educational, institutional, religious, and public; also included are alterations, additions, and repairs. Both the annual amounts of construction started under the auspices of the federal urban renewal program and the annual amounts of building construction started independently of urban renewal are presented graphically in Figure 11.2.

An inspection of Figure 11.2 shows that the federal urban renewal program has played an insignificant role in the construction activity of these cities. Again if we optimistically assume that 75 to 80 per cent of the urban renewal construction started has actually been put in place, it turns out that less than 1.3 per cent of the building construction that took place in cities with populations of over 100,000 was built on urban renewal sites.

Since 1952 the annual amount of construction started in our large cities has increased approximately 50 per cent to its present level of about $6,000 million per year. Urban renewal construction has accounted for such a small percentage of this amount that it is reasonable to assume that these large cities would

hardly notice it if the urban renewal program suddenly stopped. If our cities are "declining," as is so often claimed, how does one account for the steady *increase* in building activity? The fact remains: construction activity in cities has been steadily in-

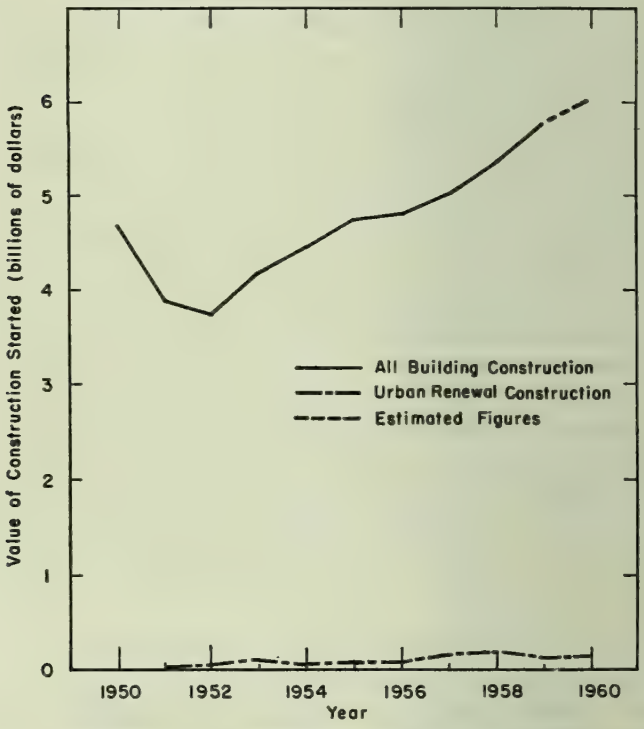


FIGURE 11.2 *Annual construction started in United States cities of over 100,000 population compared to annual construction started in urban renewal project areas—1950 to 1960.*

SOURCE: Statistical Abstract of the United States, United States Department of Commerce, Washington 25, D. C., 1961 and other issues; *Physical Progress Quarterly Reports* (unpublished), Housing and Home Finance Agency, Urban Renewal Administration, Form H-6000, Washington 25, D. C., March 31, 1961; 191 projects reporting.

creasing during the past decade and today stands at a high level in spite of the protestations of those who claim the city is dying.

The Net Contribution of Urban Renewal

One of the most serious criticisms that can be leveled at the federal urban renewal program is that it may only cause shifts in construction activity rather than increases in construction activity. Former Governor John Volpe of Massachusetts, in a statement concerning the Prudential Center in Boston, stated:

> This is an area which can absorb just so much construction. If these buildings do not proceed, other buildings will proceed and if these buildings proceed, other buildings will not proceed.[4]

The lure of generating new construction within the city appears to be one of the strongest motivations for mayors and other city officials to push for a local urban renewal program. In most cases it appears to be implicitly assumed that urban renewal construction constitutes new construction that would not have taken place otherwise. This assumption is not accurate; some, perhaps a great deal, of the urban renewal construction would have taken place anyway. And, as the amount of shifted construction becomes greater, the argument for urban renewal becomes weaker. For this reason it is important that an attempt should be made to determine the percentage of the construction in urban renewal areas that would have been erected in the city if the federal urban renewal program had not existed. This question will probably never be answered with certainty, but it is possible to develop a reasonably good estimate.

As was previously shown, the public subsidy involved in the urban renewal program is intended to lower the cost of construction in an urban renewal area to a level where urban renewal construction can compete with conventional construction. For example, the people renting space in new urban renewal construction pay rents comparable to similar space in conventional buildings. The subsidy they receive is for location: with-

out the urban renewal program they would have been forced to pay higher rents to acquire similar space at *that particular location.*

The introduction of an urban renewal program into a community assumes that there is sufficient demand to absorb both urban renewal construction and conventional construction. If there were no urban renewal program, there would be excess demand for conventional construction in a particular area. The market could eventually accommodate this demand by either increasing the supply of construction or increasing the existing rent levels. It is most likely that some combination of these events would occur.

Assuming that demand for construction is independent of urban renewal efforts, it appears that the *net* contribution of urban renewal is to keep rent levels lower than they might have been and to perhaps speed up the supply of new construction. This contribution would occur only under ideal operating conditions for urban renewal. Since urban renewal has turned out to be a very long process, the value of this *net* contribution is probably small.

According to Dr. Louis Winnick, an authority on urban renewal:

> To what extent will the federal Title I program increase the future volume of apartment construction? Here, again, I think that the net effect will be comparatively small. Although new apartments are a major element in past, present and future urban renewal projects, it seems to me that Title I and Section 220 mortgages *will do much more to alter the geographical distribution of apartment construction than to increase its over-all amount.* . . . Although the proposition is endlessly debatable, I myself think that most of the families who become tenants in Title I projects would have been tenants in other new apartments if Title I did not exist.[5] [My italics.]

Dr. Winnick and another housing economist, Dr. Chester Rapkin, using this type of reasoning, have estimated that anywhere from 50 to 75 per cent of the construction in urban renewal areas would have been built on the same or other locations even if

there had been no urban renewal program.[6] In making this estimate they have relied heavily on their experience in New York City. The argument is this: if there is sufficient demand to absorb a given amount of urban renewal construction at market prices, it seems reasonable to assume that a large part of this demand would eventually be accommodated by normal market processes. For analysis purposes, it will be conservatively estimated that about 50 per cent of urban renewal construction is *shifted* — only 50 per cent will be considered to be a net gain.

The size of the area under consideration has an important effect on the issue of construction activity. The net amount of new construction is *smaller* the *larger* the area considered. For example, an urban renewal project would probably generate a relatively large amount of construction from the viewpoint of the urban renewal area alone. From the viewpoint of the whole city the net capital formation would probably be relatively small because the demand satisfied by the new buildings in the urban renewal area will tend to decrease the demand for buildings in other areas of the city. From the viewpoint of the United States as a whole, the net contribution of the federal urban renewal program in terms of capital formation is minute, and may even be negative.

Chapter Eleven Notes

1 *Local Public Agency Letter No. 203,* "Acceleration of Urban Renewal Activities to Stimulate the Economy," Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., February 2, 1961.

2 *Statistical Abstract of the United States,* U.S. Department of Commerce, 1961, Table 410, p. 301.

3 Estimates of construction expenditures measure the value of work put in place on all structures and facilities under construction during a given period regardless of when work on each individual project was started. These figures represent a summation of costs of materials actually incorporated into structures and facilities during the given period regardless of when such materials were purchased or delivered to the sites, costs of labor performed during the period, and proportionate allowances for overhead costs and profit on construction operations. Cf. *Historical Statistics of the United States, Colonial Times to 1957,* Social Science Research Institute, Washington, D. C., 1960, p. 373.

[4] *The Boston Globe,* July 24, 1962, p. 1.

[5] Winnick, Louis, "Rental Housing: Problems for Private Investment," *Conference on Savings and Residential Financing,* 1963 proceedings, published by the United States Savings and Loan League, Chicago, Illinois, pp. 107, 108.

[6] Interviews: Louis Winnick, Director of Research, Housing Redevelopment Board, New York City (April 1962); Chester Rapkin, Professor, University of Pennsylvania (April 1962).

CHAPTER TWELVE

URBAN RENEWAL AND THE CONSTITUTION

. . . nor shall private property be taken for public use, without just compensation.

Fifth Amendment to the Constitution of the United States

Under the currently held ruling of the Supreme Court of the United States, the operations of the federal urban renewal program are constitutional, but it is possible that a future ruling of the Supreme Court may change this. It took a long, bitter fight to get the urban renewal program declared constitutional by the nine justices of the Supreme Court, and many of the same challenging questions still remain. The basic right involved is the right of an United States citizen to own property safe from seizure by an agent of the government.

Under our Constitution it is understood that a man is free to use his property as he desires as long as he does not interfere with the rights of others. Traditionally the *only* condition under which the government may seize private property is for "public use."[1] The key phrase here is "public use." We shall see, as we trace some of the developments in this area, that the interpretation of this phrase has changed quite drastically over the years. The question of the constitutionality of urban renewal depends on the way in which the phrase "public use" is interpreted, and

the way that this interpretation is actually implemented. Today, it is possible for an agency of the government to seize the private property of one individual, destroy it, and then sell the cleared land to someone else at whatever price is negotiated between the government official and the prospective buyer. Let us see if there are any rational grounds on which this can be justified.

The attitude of the government of the United States toward the concept of private property rights has been slowly changing. The right to own private property is synonymous with freedom, and in the earlier years of this country was treated with the utmost respect. The right of property means that one is free to use and dispose of that which one has produced — if one is not free to do so, then one does not really have the right of liberty.

The United States is still far from Article VI of the Soviet Constitution which states:

> The land . . . and the bulk of the dwelling houses in the cities and industrial localities are *state* property. . . . [My italics.]

but we are now at the point where many people will argue that the traditional rights of property must not stand in the way of broader social objectives or "human rights." The concept of broader social objectives has never been clearly defined, but it usually means that the rights of some will be sacrificed to the advantage of others. As for "human rights," it need only be noted that the right of property is probably the most important of all human rights.

The present position of the Supreme Court is far different from the view stated by William Pitt, a British statesman of the early eighteenth century:

> . . . The poorest man may in his cottage bid defiance to all the forces of the Crown. It may be frail; its roof may shake; the wind may blow through it; the storms may enter, the rain may enter, but the King of England cannot enter; all his forces dare not cross the threshold of the ruined tenement.[2]

William Blackstone, a celebrated English judge in the same century, was even more specific:

> Regard of the law for private property is so great that it will not authorize the least violation of it, *not even for the general good of the whole community; for it would be dangerous to allow any private man, or even any public tribunal, to be the judge of this common good. . . .*[3] [My italics.]

In 1791, the right to private property was incorporated in the Bill of Rights. Included in this was the proviso that private property could be taken only for public use and just compensation must be given. This constitutional proviso, usually referred to as the right of eminent domain, provided a wedge in the concept of property rights which has widened ever since.

However as late as 1896 the term public use was interpreted quite literally. The State of Nebraska had directed the Missouri Pacific Railroad to permit an association of farmers to use a site they wanted along the railroad's right-of-way for erection of a grain elevator. The Supreme Court asserted that:

> . . . The taking by a state of the private property of one person or corporation, without the owner's consent, for the private use of another, is not due process of law, and is a violation of the 14th Article of Amendment of the Constitution of the United States.[4]

In a 1913 decision of the Supreme Court of Massachusetts, a constitutional philosophy was expressed that was clearly unsympathetic to urban renewal legislation. They held that it was unconstitutional to resell or lease to private persons property taken by eminent domain in excess of that required for a public beach and park.[5] The court stated:

> In a general sense it is in the public interest that the people be well housed, but this does not authorize the State to become the general landlord.[6]

In 1935 the approach to slum clearance was more direct than it is today. The federal government sent representatives into selected cities, took title to the properties involved, destroyed the buildings, and constructed its own low-cost housing. Work had begun on projects of this type without any challenge by the people in about fifteen cities when the federal government tried to condemn four city blocks in Louisville, Kentucky. One of the

property owners, feeling that he had suffered an injustice, challenged the power of the federal government to take his property for this purpose. The government was asked what provision of the Constitution gave them the power to take private homes and to replace them with low-rent housing. In defense the government cited their right to levy taxes to "provide for the . . . general welfare of the United States." It argued that "this power carried with it the right to acquire property by condemnation upon which Congress may expend tax funds." The appeal was dismissed and the court stated:

> . . . The tearing down of the old buildings and the construction of new ones on the land here sought to be taken would create, it is true, a new resource for the employment of labor and capital. It is likewise true that the erection of new sanitary dwellings upon the property and the leasing or the selling of them at low prices would enable many residents of the community to improve their living conditions. It may be, too, that these group benefits, so far as they might affect the general public, would be beneficial. *If, however, such a result thus attained is to be considered a public use for which the government may condemn private property, there would seem to be no reason why it could not condemn any private property which it could employ to an advantage to the public. . . .* [My italics.]
>
> . . . There are perhaps many properties that the government could use for the benefit of selected groups. It might be, indeed, that by acquiring large sections of the farming parts of the country and leasing the land or selling it at low prices it could advance the interest of many citizens of the country, or that it could take over factories and other businesses and operate them upon plans more beneficial to the employees or the public, or even operate or sell them at a profit to the government to the relief of the taxpayers. The public interest that would thus be served, however, cannot, we think, be held to be a public use for which the government, in the exercise of its governmental functions, can take private property.[7]

In other words, the court was saying that it is not wise to allow government officials to have the power to seize private property solely on the grounds that it is in the "public interest." The reason is that the concept, "public interest," is so imprecise and subject to so many interpretive whims, that it is dangerous

to allow a government official to use this as his sole excuse for taking property by eminent domain.

The court concluded by stating:

> The taking of one citizen's property for the purpose of improving it and selling or leasing it to another is not, in our opinion, within the scope of the powers of the federal government.[8]

Even as late as 1953, a federal court still accepted the traditional concept of property rights as they applied to urban renewal. The following excerpt is from an opinion handed down by one of the federal district courts on a case concerning urban renewal in Washington, D. C.:

> In sum the purpose of the plan, in addition to the elimination of slum conditions, is to create a pleasant neighborhood, in which people in well-balanced proportions as to income may live. The Government is to determine what conditions are pleasant, what constitutes the "most appropriate" pattern of land use, what is a good balance of income groups for a neighborhood, how many poor people, how many moderately well-to-do people, how many families of two, how many of four, etc., should be provided for in this neighborhood, and what the proper development of a community should be. . . . *But as yet the courts have not come to call such pleasant accomplishments a public purpose.* [My italics.][9]

The ruling was appealed to the Supreme Court and, less than a year later (1954), this decision was overruled. The "pleasant accomplishments" alluded to in the lower court's finding were now construed to be a "public purpose." The exact words of the court were:

> We do not sit to determine whether a particular housing project is or is not desirable. The concept of the public welfare is broad and inclusive. . . . It is within the power of the legislature to determine that the community should be *beautiful* as well as healthy, *spacious* as well as clean, *well-balanced* as well as carefully patrolled. . . . [My italics.] Once the question of the public purpose has been decided, the amount and character of land to be taken for the project and the need for a particular tract to complete the integrated plan rests in the discretion of the legislative branch.[10]

Recalling William Pitt's statement that "the poorest man may

in his cottage bid defiance to all the forces of the Crown" and that "the rain may enter, but the King of England cannot enter," Professor Charles M. Haar of the Harvard Law School observed recently that "the Supreme Court, by upholding in sweeping terms urban redevelopment legislation, has ruled in effect that the King not only may enter, but may remain, in the name of the general good, indeed for the very purpose of keeping the rain out."[11]

Even sound structures may be taken for urban renewal purposes if they lie within the urban renewal area. When owners of buildings have contested projects because they felt their structures were sound and standard, the courts, including the Supreme Court, have sustained the exercise of the power of eminent domain on the ground that it is the *need* of the area as a whole, rather than individual structures, which is important. The Supreme Court stated:

> Property may of course be taken for this development which, standing by itself, is innocuous and unoffending. . . . If owner after owner were permitted to resist these redevelopment programs on the ground that his particular property was not being used against the public interest, integrated plans for redevelopment would suffer greatly. The argument passed on us is, indeed, a plea to substitute the landowner's standard of the public need for the standard prescribed by Congress. But as we have already stated, community redevelopment programs need not, by force of the Constitution, be on a piecemeal basis — lot by lot, building by building.[12]

The situation has now progressed to the point where it is possible for a local renewal agency to seize *vacant* land for "renewal" purposes. In the past, courts have been reluctant to rule on the taking of undeveloped vacant land for renewal use; this has changed and the trend is now clear. The courts have upheld the constitutionality of using public money and the power of eminent domain to take vacant land where statutory characteristics of "blight" have been established by the local officials.[13]

The federal urban renewal program has drastically altered the traditional concept of eminent domain; it is doubtful if any

of the founding fathers could recognize it in its present form. The question is whether it is constitutional to sell or lease cleared land, which has been acquired by eminent domain, to private persons. This issue has provoked violent conflict, especially when urban renewal land, previously used for housing, was to be used for commercial and industrial purposes. The proponents of urban renewal won this conflict as the courts almost unanimously upheld the urban renewal statues. Let us examine the courts' reasoning.

According to a Massachusetts lawyer, Lewis H. Weinstein, who has worked with urban renewal:

> . . . the courts almost unanimously upheld the validity of the redevelopment statutes on the theory that the primary objective was slum clearance, *not* the taking of the property of one individual and turning it over to another, and that disposition of the land after clearance is *incidental* [my italics] to that basic public purpose.[14]

Court opinions of this nature do not answer the basic question; they simply evade the question with consummate skill. What they really said is that the reuse of the cleared land by a private person is not the objective of urban renewal, is incidental to the process, and is therefore constitutional. This is an illogical argument — the seizure of private property for someone else's private use may be incidental and not the objective of urban renewal, but this does not make it constitutional. What if some renewal official decided to make theft part of the urban renewal process? Would the courts declare that theft is not the objective of urban renewal, is incidental to the process, and is therefore constitutional?

Not all courts have acquiesced to the demands of the government authorities. The following excerpts are from the opinion of the federal district court in the *Berman* vs. *Parker* case, the case which the Supreme Court later used to declare urban renewal constitutional. The quote is rather long, but the points they make are clear and important.

> . . . we have the problem of the area which is not a slum but which is out of date, called by the Government "blighted" or

"deteriorated." The government says the statute is not limited to slum clearance but extends to what is called "urban redevelopment."

. . . . . .

The hypothesis . . . is [that] an urban area which does not breed disease or crime, is not a slum. Its fault is that it fails to meet what are called modern standards. Let us suppose that it is backward, stagnant, not properly laid out, economically Eighteenth Century — anything except detrimental to health, safety or morals. Suppose its owners and occupants like it that way. Suppose they are old-fashioned, prefer single-family dwellings. . . . Or suppose these people own these homes and can afford none more modern. The poor are entitled to own what they can afford. . . .

. . . . . .

. . . *There is no more subtle means of transforming the basic concepts of our government, or shifting from the preeminence of individual rights to the preeminence of government wishes,* than is afforded by redefinition of "general welfare", as that term is used to define the Government's power of seizure. . . .

We are of opinion that the Congress, in legislating for the District of Columbia, has no power to authorize the seizure by eminent domain of property for the sole purpose of redeveloping the area according to its, or its agents, judgment of what a well-developed, well-balanced neighborhood would be. . . .

This concerns a situation where the plan is to redevelop an area upon only a part of which slums exist. . . . In essence the claim is that if slums exist the Government may seize, redevelop and sell all the property in any area it may select as appropriate, so long as the area includes the slum area. *This amounts to a claim on the part of the authorities for unreviewable power to seize and sell whole sections of the city.* [My italics.]

. . . . . .

The key to the plan, apart from slum clearance, is the opinion of the Government authorities that residential neighborhoods should be "well-balanced" and that the area should contain housing for all income groups . . . The plan says: "The purpose of redevelopment is to clear the slums and replace them with that pattern of land use most appropriate to the overall development of the community."

No acute housing shortage is to be met. In fact the plan provides for no more residents than presently occupy the area. No pressing economic condition, apart from the slums, is sought to be dealt with by this plan. No purpose of housing for the needy — low-rent housing — is the motivation. No rearrangement of streets is con-

templated or provided. The streets throughout Project Area B are exactly the same as are the streets in all parts of the District of Columbia.[15]

According to our present Constitution the right of a state government to take private property under the "eminent domain" proviso hinges directly on whether it is to be taken "for public use." A great deal depends on the interpretation of these three words.

. . . Over the years, the words "for public use" have come to mean "for the public benefit," or "welfare." In fact, the Supreme Court has said, in effect, that they mean whatever Congress or a state legislature says they mean. The Court takes the view that "it is the function of Congress to decide what type of taking is for public use. "In such cases," the Court said in 1946, "the legislature, not the judiciary, is the main guardian of the public needs to be served by social legislation. . . ."[16]

The Supreme Court's determination that the "Nation's capital should be beautiful as well as sanitary," has set the tone for the state courts. For example, in 1956, the Massachusetts Supreme Court declared that "the improvement of the appearance and attractiveness of a project area is a valid public purpose."[17]

Thus the courts have come to embrace the idea that it is in the public purpose to make an area of the city beautiful, spacious, and well-balanced. This necessarily implies that the area was not beautiful, spacious, and well-balanced to begin with. Who makes this determination?

Usually the determination of whether an area is "blighted" is left in the hands of the officials of the local renewal agency. The courts have been understandably reluctant to attempt the almost impossible task of validly determining the degree of "blight" — the only time they will get involved is when they have cause to believe that the officials of the local renewal agency have acted unreasonably or arbitrarily.

. . . The determination of what constitutes a redevelopment area and what property is to be taken is primarily a matter for the redevelopment agency, and its decision is open to judicial review only to discover whether it has acted unreasonably or in bad faith or has exceeded its powers.[18]

This, of course, evades the underlying question that is concerned with the character of the area under consideration, not any abuse of discretion or arbitrary action. The effect has been to leave the determination of "blight" in the hands of the government agency responsible for the project.

Is the federal urban renewal program constitutional? Let us draw together and summarize the issues and arguments. In order for urban renewal to proceed it is necessary to invoke the power of eminent domain — without eminent domain, the program would stop quickly. The Constitution clearly states that the power of eminent domain may be used only in those instances where the seized land is put to *public use.* The urban renewal program runs into trouble here because most of the cleared, improved land is sold to *private persons* — by no stretch of the imagination can this be construed to be a *public use;* it is clearly a *private use.*

The proponents of urban renewal were not daunted; they immediately propounded the idea that, although the land was to be devoted to *private use,* this use constituted a clear "public purpose" and was therefore in the "public interest." They then doubled back and reinterpreted the Constitution's "public use" clause as really meaning in the "public interest." Therefore, they concluded, urban renewal is in the public interest and is constitutional.

This whole line of argument rests on the assumption that the private use of land is in the "public interest." This may be true in a general sense, but if we accept their principle, it means that the government theoretically could seize anyone's property if the official thought it would be in the "public interest." The reasoning of the courts in this area for the most part has been shaky and, at times, quite illogical — it is time for a review.

In 1960 the Supreme Court of Georgia summed up its feelings on the changes that the federal urban renewal program has caused by stating:

> . . . the historic constitutional protection of private property, except for public purposes, was voluntarily surrendered by the people themselves. . . . However much as individuals we may

deplore the surrender by the people of their rights, as Justices of this Court we unhesitatingly follow and apply the law as the people have written it.[19]

Chapter Twelve Notes

1 Constitution of the United States, Amendment V.
2 *Blackstone's Commentaries* (Ewell Ed. 1889), p. 26.
3 *Ibid.*
4 *Missouri Pacific Railroad* v. *Nebraska,* 164 U.S. 403 (1896).
5 Weinstein, Lewis H., "Judicial Review in Urban Renewal," *The Federal Bar Journal,* Vol. 21 (Summer 1961), p. 320.
6 *Salisbury Land and Improvement Company* v. *Commonwealth,* 215 Mass. 371, 102 N.E. 617 (1913).
7 *United States* v. *Certain Lands in the City of Louisville,* 78 F. 2d (6th Cir. 1935), appeal dismissed, 297 U.S. 726 (1936).
8 Johnson, Thomas F., James R. Morris, and Joseph G. Butts, *Renewing America's Cities,* The Institute for Social Science Research, Washington 5, D. C., 1962, p. 49.
9 117 F. Supp. 705 (D.D.C. 1953).
10 348 U.S. 26 (1954), *Berman* v. *Parker.*
11 Johnson, Morris, and Butts, *op. cit.,* pp. 61–62.
12 348 U.S. 26 (1954), *Berman* v. *Parker.*
13 Weinstein, *op. cit.,* p. 322.
14 *Ibid.,* p. 321.
15 Johnson, Morris, and Butts, *op. cit.,* pp. 58–59.
16 *Ibid.,* p. 57.
17 *Bowker* v. *Worcester,* 334 Mass. 422, 430, 136 N.E. 2d 912 (1956); *Worcester Knitting Realty Company* v. *Worcester Housing Authority,* 335 Mass. 19, 24, 138 N.E. 2d 356 (1956).
18 *Graham* v. *Houlihan,* 147 Conn. 321, 160 A. 2d 749 (1960); cert. denied, 364 U.S. 833 (1960).
19 *Allen* v. *City Council of Augusta,* 215 Georgia, 778, 11s S.E. 2d 621 (1960).

CHAPTER THIRTEEN

CHANGES IN HOUSING QUALITY

> From earliest time, the city has had such an attraction and fascination for man that he has given it symbolic meaning, has made it a god.
>
> Christopher Tunnard

The achievement of better housing quality is one of the primary goals of the federal urban renewal program. Before we can validly judge the performance of the program in this area, we must have the answer to three basic questions:

1. What was the level of housing quality when the program was conceived?
2. What has the program done to affect the quality of housing?
3. What have private forces, operating independently, done to affect the quality of housing?

Continuing the program on the ground that it improves over-all housing conditions can be justified only if it can be shown that federally aided urban renewal is necessary and that it has been effective.

We have seen in earlier chapters the kind of contribution that the federal urban renewal program made for over-all housing conditions — it was not encouraging. If it appears that the federal program is faltering badly, should not we be concerned

seriously about the future quality of housing in the United States, particularly in cities? Some would say yes, most would not be sure, and a few would say no. Let us take a look at what a couple of experts have recently said about the program.

In a report of the President's Commission on National Goals in 1960, Catherine Bauer Wurster stated:[1]

> *There is a great deal of seriously substandard housing* in American communities, and spreading "gray areas" in various stages of actual or potential decay, plus commercial and industrial blight. *It is quite evident that economic progress alone does not cure these evils,* and that local governments cannot do the necessary job alone. . . . [My italics.]

In 1958, Reginald R. Isaacs, then Chairman of the Department of City and Regional Planning of Harvard University, stated that unless urban renewal were pursued vigorously, dire results would occur:

> The alternatives are unacceptable: urban bankruptcy, state-administered receiverships along with vastly increased Federal spending. Beyond these are the final alternatives of social disorder, disintegration, and economic chaos.[2]

Mrs. Wurster's statement explicitly says that there is a great deal of seriously substandard housing and that it is spreading; it implicitly says that economic progress (that is, private enterprise) cannot solve the problem and that government help is necessary. Professor Isaacs goes even further and raises the spectres of social disorder and economic chaos unless urban renewal is pursued vigorously.

On the basis of what these and other urban experts have stated and written, it seems as if we are in for serious trouble. However, a close look at some of the actual developments in recent years should allay these fears considerably.

In the past decade (1950 to 1960) impressive progress has been made toward achieving the objectives set forth in the Housing Act of 1949 — over-all housing conditions have improved enormously, in cities as well as outside of cities. The progress, which will be detailed in this chapter, came almost entirely

from private building and renewal efforts that operated independently from the federal urban renewal program. We have seen what the federal program did to housing, now let us see what private forces have done.

Housing in the United States, 1940–1960

There are no simple answers as to what is good housing and what is bad housing. Housing standards vary over time and from one area of the country to the other. No one has yet developed a completely reliable statistical measure of the quality of housing, and it is unlikely that anyone will. However, there are data available today, although admittedly not perfect, from which it is possible to construct a meaningful picture of changes in housing quality. These are the housing data published by the Bureau of the Census. Although it can be criticized, it is by far the best data available today — no one has yet come up with a measure that is more accurate, broader in scope, or more consistent over time.

These housing data are the cumulative result of approximately 150,000 individual enumerators employed by the Bureau of the Census. In 1960, each one of these 150,000 enumerators was given careful instructions on how to classify dwelling units into one of three primary measures of housing quality — sound, deteriorating, and dilapidated.[3] The enumerator was provided with detailed written instructions and with pictures illustrating the concepts of sound, deteriorating, and dilapidated construction. In addition, a film strip depicting various levels of deterioration, accompanied by a recorded narrative, was shown to the enumerator.

The reason this is emphasized is that there appear to be a considerable number of people who justify *their* conclusion that the city is deteriorating solely on the basis of their own visual impressions. This is not a valid way to measure changes in housing quality — first, their range of experience is very limited; second, there is no way of ascertaining whether or not their standards by which they judge have changed; and third, there

is no way of even knowing what standards they use. The data collected by 150,000 trained enumerators, in comparison, are complete and consistent over time.[4] Furthermore, one knows the standards by which the dwelling units are being judged.

The changes in housing quality between 1940 and 1960 are striking. In 1940, only 51 per cent of the total housing stock in the United States was classified as standard (not dilapidated with all plumbing facilities). By 1950 it had climbed to 63 per cent, an increase of 12 percentage points. Progress continued at an increasing pace, and, according to the latest Census reports (1960), approximately 81 per cent of the housing in the United States is considered standard. If we discount the war years, it means that the over-all quality of housing, expressed as a percentage of the total, increased from 51 per cent to 81 per cent as a result of slightly over 15 years of productive effort. The trend of housing quality in the United States from 1940 is presented in Figure 13.1. If we project the trends indicated in Figure 13.1, it is entirely possible that the Census of 1970 may reveal that 90 to 95 per cent of the total amount of housing will be classified as standard. The absolute decline in substandard housing has also been large, proving that the over-all percentage increase in housing quality was not solely due to new construction. During the decade from 1950 to 1960 the actual number of substandard dwelling units declined from 17.0 million to 10.9 million, *a decrease of 6.1 million.* During the same period of time over 12 million new dwelling units were added to the housing supply. The result of this was a *net addition of over 18 million standard dwelling units* during the ten-year period from 1950 to 1960. This increased the total number of standard dwelling units from 29.1 million to 47.4 million, a 63 per cent increase in 10 years. (See Figure 13.2.)

Virtually all of this was accomplished by private construction, rehabilitation, and demolition efforts that resulted from the investment of massive amounts of private funds in housing that was in no way connected with the federal urban renewal program. From 1945 to 1960, private mortgage debt outstanding in the United States increased by almost $170 billion.[5] Ap-

proximately 40 per cent of this total was insured by the federal government through the Federal Housing Administration and the Veteran's Administration. This probably had the effect of increasing the amount of money invested in housing, but the

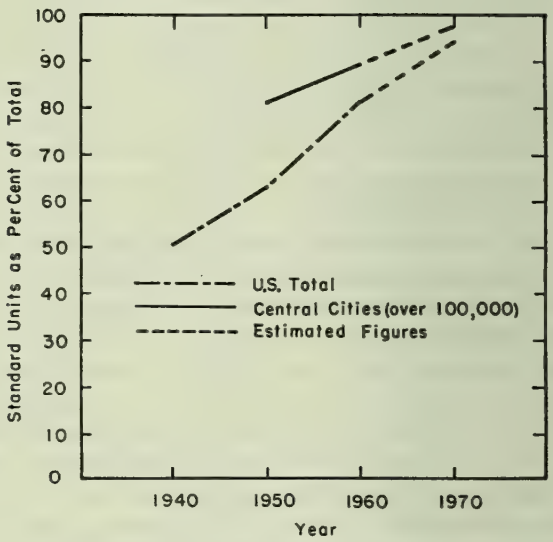


FIGURE 13.1 *Percentage of standard housing in the United States and in cities with populations over 100,000 —1940 to 1960 with estimate of 1970.*

SOURCE: United States Bureau of the Census, 1940, 1950, and 1960. (Note: data for cities with populations over 100,000 were not available for 1940.)

underlying demand for housing and the growing income of those who desired housing were clearly the predominating factors.

The amount of dilapidated (seriously substandard) housing has also declined sharply. In this analysis seriously substandard housing constitutes housing classified as dilapidated by the Bureau of the Census. It does not provide safe and adequate shelter. In 1950, 9.8 per cent of the housing in the United States was

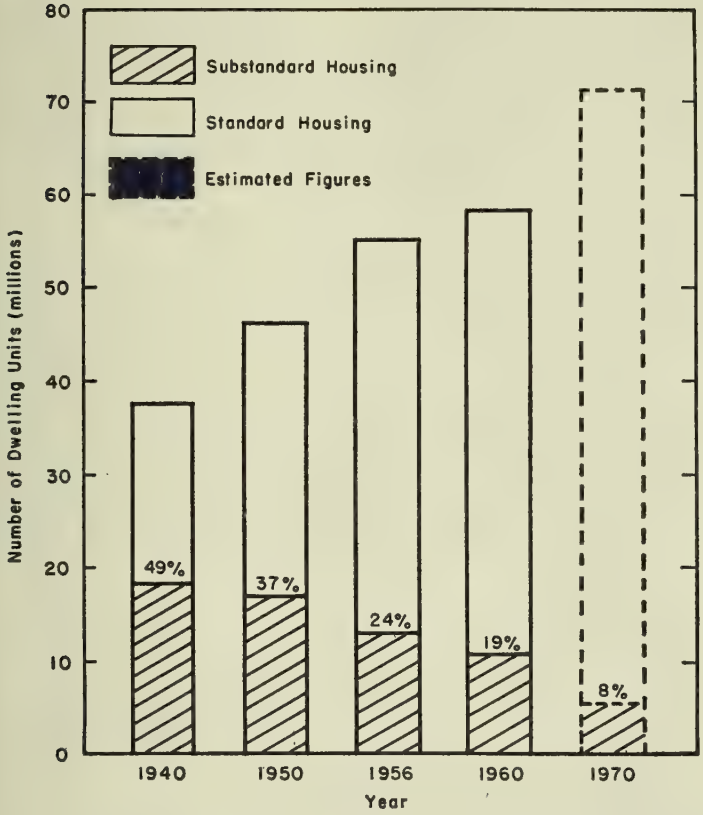


FIGURE 13.2 *Improvements in United States housing quality — relative amounts of standard and substandard housing — 1940 to 1960 including estimate of 1970.*

SOURCE: Hearings Before a Subcommittee of the Committee on Banking and Currency, United State Senate, 87th Congress, Housing Legislation of 1961, pp. 427, 428, and 463 (prepared by the National Association of Home Builders); *14th Annual Report*, 1960, Housing and Home Finance Agency, Urban Renewal Administraton, Washington 25, D. C., p. 11.

classified as dilapidated; in 1960 it had declined to 5.2 per cent.[6] It is also interesting to note that at the end of 1960 the over-all vacancy rate in standard housing was 6.7 per cent. The point has been reached where the number of seriously substandard housing units is actually less than the number of vacant units. This strongly indicates that there is not a physical shortage of decent housing units. The real problem is that there is a certain group of people who either cannot or will not spend enough money to rent or to buy this housing.

The improvement of housing quality is a continuous, complex process, and the net result is determined by many opposing forces. The rigorous examination of this process would require an entire book, and unfortunately such a book is not available at this time. However, we can get some insight into the process by examining a detailed breakdown of changes in housing inventory in 17 of the largest metropolitan areas from 1950 to 1960.

There are many changes which occur. For example, the stock of substandard housing can be reduced by three primary means:

1. By being rehabilitated into standard units.
2. By demolition.
3. By converting small substandard units into fewer larger ones.

Similarly the stock of substandard housing can be increased by

1. Having standard units deteriorate into substandard units.
2. Building new substandard units.
3. Converting large substandard units into more smaller ones.

The interaction of all these processes will result in either a net increase or decrease in the amount of substandard housing.

Table 13.1 shows, for the selected metropolitan areas, the changes in housing quality from 1950 to 1960. In this section we will refer to nondilapidated housing with all plumbing facilities as standard and to all nondilapidated housing lacking some or all plumbing facilities as "deteriorating."

The stock of standard housing in 1950 was 11,990,000 units. During the next ten years, 4,810,000 new units were built and

TABLE 13.1

DETAILED BREAKDOWN OF CHANGES IN HOUSING INVENTORY FOR 17 OF THE LARGEST STANDARD METROPOLITAN AREAS FROM 1950 TO 1959 (*in thousands of dwelling units*)

Housing Classification	Housing Inventory 1950	External Physical Changes		Internal Physical Changes		Quality Changes			Quality Changes			Error	Housing Inventory 1959
		Housing Added by New Construction or Other Sources 1950–1959	Housing Subtracted by Demolition or Other Means 1950–1959	Housing Increased by Merger or Conversion 1950–1959	Housing Decreased by Merger or Conversion 1950–1959	From Standard	From "Deteriorating"	From Dilapidated	To Standard	To "Deteriorating"	To Dilapidated		
Standard	11,990	+4,810	−(436)	+641	−(457)	—	+490	+215	—	−(135)	−(220)	−(352)	16,548
"Deteriorating"	1,608	+74	−(181)	+109	−(207)	+135	—	+57	−(490)	—	−(113)	+411	1,403
Dilapidated	675	+26	−(171)	+58	−(51)	+220	+113	—	−(215)	−(57)	—	−(60)	538
TOTAL	14,273	+4,910	−(788)	+808	−(715)	+355	+603	+272	−(705)	−(192)	−(333)	—	18,489

SOURCES: *United States Census of Housing*, 1960, Components of Inventory Change, Part 1A, HC(4): 1950–1959 Components. Standard Metropolitan Areas included were Atlanta, Georgia; Baltimore, Maryland; Boston, Massachusetts; Buffalo, New York; Chicago, Illinois — Northwestern Indiana; Cleveland, Ohio; Dallas, Texas; Detroit, Michigan, Los Angeles — Long Beach, California; Minneapolis — St. Paul, Minnesota; New York, New York — Northeastern New Jersey; Philadelphia, Pennsylvania — New Jersey; Pittsburgh, Pennsylvania; St. Louis, Missouri — Illinois; San Francisco — Oakland California; Seattle, Washington; and Washington, D. C. — Maryland — Virginia.

436,000 were destroyed, for a net gain of 4,374,000 units. The number of units were further increased by converting large units into small ones for a net increase of 641,000 units; at the same time the conversion of smaller units into larger ones resulted in a net decrease of 457,000 units. The result of conversion activity was a net over-all gain of 184,000 units.

The stock of standard housing was also affected by changes in quality of the existing stock. From 1950 to 1960, 490,000 dwelling units, classified as "deteriorating" in 1950, had been improved to the point where they were classified as standard in 1960; and additional 215,000 units made the longer jump from dilapidated to standard during the same time. There were also movements the other way — 135,000 standard units slipped into the "deteriorating" category, and about 220,000 units slipped still further into the dilapidated category. The net gain in standard homes from positive and negative changes in housing quality alone was an increase of 350,000 standard homes.

By 1960, the inventory of standard homes had increased to 16,548,000 — the net gain of 4,558,000 homes was the net result of all the previously mentioned forces. (Note: due to statistical error there was a net gain of 350,000 standard units that is not explained by any of the previous data.)

A similar analysis could be performed on the "deteriorating" and dilapidated categories of housing, but the general principles would be the same — changes in housing quality are the result of a complex, interrelated process.

The over-all results for these 17 metropolitan areas, which account for over 30 per cent of the total inventory of housing in the United States, indicate that,

1. Standard housing *increased* by 4,558,000 units.
2. "Deteriorating" housing *decreased* by 205,000 units.
3. Dilapidated housing *decreased* by 137,000 units.

Housing Quality in the Cities

It may appear that this significant increase in the quality of housing in the United States has been primarily due to the rapid

growth of the suburbs, and that the quality of housing in central cities may actually have deteriorated. This has not been the case. In order to pinpoint this development, the following analysis was restricted to cities with populations over 100,000. In 1950 approximately 80.5 per cent of the housing within these large cities was classified as standard by the Bureau of the Census. In 1960 it had increased to 88.6 per cent. This increase in housing quality is also presented graphically in Figure 13.1. By examining Figure 13.1 it is possible to get a clear impression of both the changes that have occurred in housing quality for cities and the whole country, and their relationship to one another. In the past, housing in cities has been substantially better than the country taken as a whole, and this relationship has been maintained; that is, housing quality in cities has improved at approxi-

TABLE 13.2

QUALITY OF HOUSING IN THE THIRTEEN LARGEST CITIES IN THE UNITED STATES, 1960

City	*Total Dwelling Units*	*Per Cent Substandard**	*Per Cent Dilapidated†*
New York	2,758,116	10.0	3.1
Chicago	1,214,958	14.0	2.6
Los Angeles	935,507	5.7	1.4
Philadelphia	649,036	6.1	2.1
Detroit	553,199	6.7	2.7
Baltimore	290,155	6.2	3.1
Houston	313,097	8.5	2.8
Cleveland	282,914	9.8	3.2
Washington	262,641	9.7	1.5
St. Louis	262,984	22.8	4.5
San Francisco	310,559	13.8	1.7
Milwaukee	241,593	10.2	1.7
Boston	238,547	16.3	3.9
TOTAL	8,313,306	10.1	2.6

* Substandard includes sound and deteriorating dwelling units that lack one or more plumbing facilities plus all dilapidated dwelling units.

† Dilapidated includes all housing considered seriously substandard.

SOURCE: U.S. Bureau of the Census, 1960.

mately the same rate that the housing quality of the whole United States improved. The amount of seriously substandard housing in cities is approaching a very low level. In 1960 only 3.2 per cent of the housing in cities with over 100,000 population was dilapidated.

The preceding analysis was based on the 128 cities that are over 100,000 in population. It could be that the inclusion of a large number of relatively small cities may mask what is really going on in the larger ones. For this reason, it was decided to make a detailed analysis of housing quality in the thirteen largest cities in the country. The results indicate clearly that the larger cities have a substantially higher quality of housing. For the thirteen largest cities, 9.9 per cent was substandard and only 2.7 per cent was dilapidated. A detailed breakdown showing the percentage substandard and dilapidated for each one of these large cities is given in Table 13.2.

So far we have ignored the question of vacant housing and its relation to the over-all quality of housing. Data on occupied housing will tell us what kind of housing people are actually living in; the vacancy rate will tell us what sort of pressures exist for various kinds of housing. The condition of occupied housing and vacancy rates for each category are given in Table

TABLE 13.3

CONDITION AND VACANCY RATES OF HOUSING IN THE UNITED STATES — 1950 AND 1960

Condition of Housing	*Occupied Housing Units (in millions)*			*Vacancy Rate as Percentage of All Units*	
	1950	*1960*	*Net Increase or (Decrease)*	*1950*	*1960*
Standard	27.7	44.2	16.5	3.9	6.7
"Deteriorating"	11.3	6.4	(4.9)	9.6	19.0
Dilapidated	3.9	2.4	(1.5)	13.3	20.0
TOTAL	42.9	53.0	10.1	6.9	9.1

SOURCE: 14th Annual Report, 1960, Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., p. 11.

13.3. During the ten-year period from 1950 to 1960 the number of occupied dwelling units, classified as standard by the Bureau of the Census, increased from 27.7 million to 44.2 million, a net *gain* of 16.5 million. During the same period homes in the "deteriorating" category decreased from 11.3 million to 6.4 million, a net *reduction* of 4.9 million. The number of seriously substandard homes (dilapidated) declined from 3.9 million to 2.4 million, a net *reduction* of 1.5 million. Clearly then, the amount of "good" occupied housing has been increasing dramatically as the amount of "bad" occupied housing has been decreasing just as dramatically. Compare the net gain of millions of "good" homes and the net reduction of millions of "bad" homes with the net results of the federal urban renewal program.

The vacancy rates also changed significantly from 1950 to 1960. (See Table 13.3.) The vacancy rate for standard homes increased from 3.9 per cent in 1950 to 6.8 per cent in 1960; for deteriorating homes the vacancy rate zoomed from 9.6 per cent to 19.0 per cent; and for dilapidated housing it moved from 13.3 per cent to 20.0 per cent. These figures indicate clearly that any housing "shortage" which existed in 1950 has been alleviated considerably in just ten years. The very high vacancy rates in the less desirable housing categories indicate that the demand for these units has fallen off considerably, a further indication of increases in housing quality.

Where Is the Bad Housing?

A great deal of emphasis has been placed on the amount of substandard and dilapidated housing in the cities of the United States, but surprisingly the statistics do not support this assertion. Perhaps one of the reasons why bad housing in cities has received so much attention is that it is concentrated and highly visible, especially to the kinds of people that would be especially concerned about it. However, the great bulk of the bad housing in the United States lies outside of the cities. Only 18 per cent of the substandard housing in the United States lies within the borders of cities with populations over 100,000. There appears to be a fairly definite correlation between the degree of urbaniza-

tion and the amount of bad housing. The greater the degree of urbanization, the less the amount of bad housing. In terms of need, a "rural renewal" program would probably be more relevant.

The City of the Very Rich and the Very Poor?

Today there also seems to be much concern over the claim that the middle-income group is disappearing from the city. The city of the future is grimly prophesized as the city of the very rich and the city of the very poor. The concept of a "balanced community," that is, one that has a so-called "normal" distribution of low-, middle-, and high-income groups, is open to argument, but even more vulnerable is the claim that the middle-income group is disappearing from the city. In a recent statement on national policy put out by the Committee for Economic Development, the following claims were made:

> Increasingly since 1945, middle-income families with children have been departing for the suburbs; lower-income groups, including substantial numbers of racial minorities, have taken up the slack. But while there are few vacancies, physical deterioration of housing and supporting facilities is much in evidence.[7]

According to Mrs. Catherine Bauer Wurster:

> In sum, despite renewal efforts the central city is more and more the abode of the poor, the rich, the childless and, to an ever increasing extent, all types of minority family.[8]

Whether or not a city composed of poor people, rich people, childless people, and members of minority groups is a bad city is debatable. For now this issue will be side-stepped and effort will be concentrated on determining whether or not this movement is taking place. If the city is not becoming a city of the rich and the poor, it seems pointless to spend much time either decrying or supporting the claim that such a change is "bad" for a city. The answer lies in an examination of the historical shifts in the distribution of income of families living in the cities of the United States.

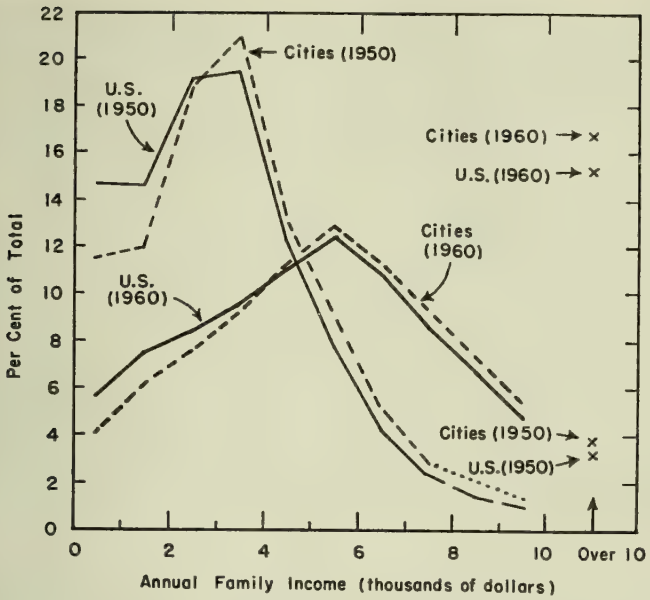


FIGURE 13.3 *Relative income distributions for the United States and for all cities with over 100,000 population—1950 and 1960.*

SOURCE: Bureau of the Census, *United States Summary: 1960*, Advance Reports, PC(A3)-1, Table 100, p. 7; *United States Summary*, Characteristics of the Population, Volume II, Part 1, Table 92, pp. 157, 158.

The main conclusions of this section are based upon an analysis of the historical shift in the income distributions of all cities in the United States with populations over 100,000. The income distributions for families living in central cities and for all families in the United States are presented in Figure 13.3 for both 1950 and 1960.[9] Both distributions shifted sharply to the right and became flatter during the period from 1950 to 1960, indicating strongly that the general level of income not only rose but also became less concentrated, both for central cities and the

country as a whole. Now let us examine the question of the "disappearing middle-income group." In 1960 the distribution of income for families living in cities was *farther* to the right than the income distribution for the whole country. Fully 56.7 per cent of the families living in cities in 1960 had incomes between $4,000 and $10,000. It is obvious that today's city is not the city of the very rich and the very poor. *It is the city of the middle-income group!*

Of course, there is always the possibility that, even though 56.7 per cent of the families living in cities today are probably considered middle-income, the percentage of middle-income families was higher in the past, and thus the cities have lost relatively. If this is true, the distribution of income for city families in 1950 should be significantly to the right of the income distribution of the whole United States in 1950. However, a glance at Figure 13.3 clearly shows that this is not the case. The relative position of the income distributions for cities and for the whole country has remained nearly unchanged since 1950. *Thus, in relation to the rest of the country, central cities have maintained their share of middle-income families during the period from 1950 to 1960, and today the central cities are relatively better off than the rest of the country in this category.* These findings clearly contradict the claims of those who say that the city is becoming a city of the very rich and the very poor.

Changes in Housing Quality for Low-Income, Minority Groups

It is sometimes charged and often assumed that the free working of a capitalistic society only benefits those of ability, that those who are poor and sometimes discriminated against because of their race cannot improve their living conditions. Many people believe that private enterprise cannot function effectively in this area and that public subsidy, in the form of the federal urban renewal program, is necessary and will be effective. Let's examine the record.

In May 1963, the Office of the Administrator of the Housing and Home Finance Agency published a report entitled, *Our*

Nonwhite Population and Its Housing: The Changes between 1950 and 1960. The essence of the report is that the members of this group enjoyed a very substantial increase in the quality of the housing they occupy. The following excerpts from this recent government report will illustrate the impact that free enterprise had on this group:

> While the nonwhite population is comprised of a number of racial groups including the Chinese, Japanese, and American Indians, Negroes accounted for 92 per cent of the group in 1960.
>
> . . . . . .
>
> At the turn of the century, 87 per cent of the nonwhite population was concentrated in the South and most of these were on farms. Over the years the quest for greater economic opportunity has prompted increasing numbers of the nonwhites, especially the Negroes, to leave the South.
>
> In the decade of the 1950's alone, nearly 1.5 million nonwhites left the South. [See Table 13.4.] The largest numbers moved into the North Central region and into the Northeast.
>
> . . . . . .
>
> The shifts away from the farms and into urban places by nonwhites were very pronounced during the decade of the 1950's. In the deep South, in addition to the movement out of the region, there was also a significant movement into the cities. Elsewhere around the country the influx of nonwhites led to very substantial gains in their absolute and relative representation in the urban population. . . .

TABLE 13.4

NET MIGRATION OF NONWHITES, 1950–1960

Area of United States	*Net Migration*
Northeast	+ 541,000
North Central	+ 558,000
West	+ 332,000
South	− 1,457,000

SOURCE: Our Nonwhite Population and Its Housing: The Changes between 1950 and 1960, May 1963, Housing and Home Finance Agency, Office of the Administrator, Washington 25, D. C., p. 2.

> . . . . . .
>
> As the nonwhites have moved into urban places they have tended to gravitate into the central cities. Some 10.3 million, or slightly

more than half of the nonwhite population, lived in such communities in 1960, a gain of over 63 per cent since 1950.

. . . . . .

Further evidence of the extent to which the nonwhites have been drawn to these large cities is the fact that during the ten years 1950 to 1960 their numbers in the 10 largest cities increased by some 56 per cent while the white population was declining by more than 8 per cent. As a result, all of the net gain in population for the 10 cities was attributable to the nonwhites.

. . . . . .

Housing Quality

One of the brighter aspects of the change in the housing status of nonwhite families between 1950 and 1960 is the improvement that took place during the decade in the physical conditions of housing which they occupied. The proportion of standard units — units that are not dilapidated and have private toilet and bath and running water — occupied by nonwhite families rose from only slightly more than one-fourth to over one-half of the units occupied by nonwhites. Even in comparison with the rise in standard units occupied by white families which rose from 68 to 87 per cent of all occupied units, the gain is impressive.

. . . . . .

Nonwhite families in each of the four Census regions shared in the general upgrading of units which occurred between 1950 and 1960. [See Table 13.5.]

TABLE 13.5

HOUSING QUALITY OF NONWHITE OCCUPIED UNITS

	1950		*1960*	
	Per Cent Standard	*Per Cent Sub-standard*	*Per Cent Standard*	*Per Cent Sub-standard*
United States	28	72	56	44
Northeast	59	41	77	23
North Central	44	56	73	27
West	59	41	79	21
South	13	87	38	62

SOURCE: Our Nonwhite Population and Its Housing: The Changes between 1950 and 1960, May 1963, Housing and Home Finance Agency, Office of the Administrator, Washington 25, D. C., p. 14.

On a relative basis units occupied by nonwhites in the South were most improved during the decade. Despite this the quality of nonwhite housing in the South still lagged far behind that in any other region.

. . . . . .

Extent of Crowding

Another indication of the adequacy of housing is the relationship of family size to the size of housing units. Between 1950 and 1960, the median size of nonwhite families remained almost the same while white families were becoming smaller.

While the median size of nonwhite families [3.3 persons] remained the same during the 1950's, a better matching of these families with housing units gave more of them space to stretch out. This is shown by the decrease from 32 to 27 percent in the proportion of overcrowded units (units with 1.01 or more persons per room) occupied by nonfarm, nonwhite families.

. . . . . .

Between 1950 and 1960 seriously overcrowded [units with 1.51 or more persons per room] nonwhite units decreased from 18 to 13 per cent of all nonwhite units. . . . At the end of the period there were 85,000 additional seriously overcrowded nonwhite housing units. [See Table 13.6.]

TABLE 13.6

SERIOUSLY OVERCROWDED NONFARM HOUSING UNITS

	White		*Nonwhite*	
	1950	*1960*	*1950*	*1960*
Total Units	1,450,000	1,071,000	548,000	633,000
Overcrowded as Per Cent of All Occupied	4.3%	2.4%	18.3%	13.1%

SOURCE: Our Nonwhite Population and Its Housing: The Changes between 1950 and 1960, May 1963, Housing and Home Finance Agency, Office of the Administrator, Washington 25, D. C., p. 16.

. . . . . .

Rents and Values

While the rents paid by nonwhite tenants and the value of homes owned by nonwhite owners more than doubled between 1950 and

1960, they still continue to run far below the comparable figures for housing occupied by white families. [See Table 13.7.] . . . Here again the lower level of rents and values is a reflection of the poorer quality of much of the housing in which nonwhite families are still obliged to live.

TABLE 13.7

MEDIAN MONTHLY RENTS PAID AND MEDIAN VALUES OF HOMES OWNED —1950 AND 1960

	Median Monthly Rents		*Median Values*	
	1950	*1960*	*1950*	*1960*
White	$44	$75	$7,700	$12,230
Nonwhite	27	58	3,000	6,700

SOURCE: Our Nonwhite Population and Its Housing: The Changes between 1950 and 1960, May 1963, Housing and Home Finance Agency, Office of the Administrator, Washington 25, D. C., p. 19.

The changes in the absolute number of standard housing units occupied by nonwhites has been substantial. In the 10-year period from 1950 to 1960 the number of standard units increased from 1,068,000 to 2,881,000, a net gain of 1,813,000. The number of substandard units decreased from 2,800,000 to 2,263,000 during this same period of time, a net decrease of 537,000. (This is summarized in Table 13.8.)

It is quite clear that the quality of housing for nonwhites in the United States increased significantly from 1950 to 1960, although it is still not as high as the quality of housing for whites.

TABLE 13.8

QUALITY OF HOUSING UNITS OCCUPIED BY NONWHITES IN THE UNITED STATES—1950 AND 1960

	1950	*1960*	*Net Change*
Standard	1,068,000	2,881,000	+ 1,813,000
Substandard	2,800,000	2,263,000	− 537,000
Total	3,868,000	5,144,000	+ 1,276,000

SOURCE: Our Nonwhite Population and Its Housing: The Changes between 1950 and 1960, May 1963, Housing and Home Finance Agency, Office of the Administrator, Washington 25, D. C.

The period was characterized by a mass migration from the area of the United States containing the worst housing, the South, to other parts of the country, especially the cities. This mass migration, coupled with an increase in the income of nonwhites, resulted in this increase in housing quality. Crowding also decreased, and except for the South, the quality of housing for nonwhites was rapidly approaching the high level of housing quality enjoyed by whites; outside of the South approximately 75 per cent of nonwhites live in standard homes.

A large percentage—between 60 and 70 per cent—of those people already forced out of their homes by the federal program and those likely to be affected in the future are members of this nonwhite group. Relative to the rest of the population of the United States many of them have low incomes. Will they benefit more from the effective execution of a federal urban renewal program or from the competitive voluntary trading of the marketplace?

First, recall what effect the federal urban renewal program had on the supply of housing from 1950 to 1960: the amount of low-rent housing was decreased, the amount of high-rent housing —housing out of the reach of most of the nonwhite population— was increased. On the other hand, private enterprise has achieved an over-all net increase of 1,813,000 standard units occupied by nonwhites, as well as a 537,000 decrease in the number of substandard units occupied by them. As far as the nonwhite population of the United States is concerned, their housing conditions have been made worse by the federal urban renewal program and have been improved substantially by the free working of the market place.

Chapter Thirteen Notes

[1] Catherine Bauer Wurster, "Framework for an Urban Society," *Goals for Americans—The Report of the President's Commission on National Goals*, Englewood Cliffs, N.J., Prentice-Hall, Inc., 1960, p. 229.

[2] Reginald R. Isaacs, "The Real Costs of Urban Renewal," *Problems of United States Economic Development*, papers by 49 free-world leaders on the most important problems facing the United States, Committee for Economic Development, New York, January 1958, p. 115.

[3] The official definitions of the Bureau of the Census for the 1960 reports are:

Sound housing is defined as that which has no defects, or only slight defects which are normally corrected during the course of regular maintenance. Examples of slight defects are lack of paint; slight damage to porch or steps; small cracks in walls, plaster, or chimneys; broken gutters or downspouts.

Deteriorating housing needs more repair than would be provided in the course of regular maintenance. It has one or more defects of an intermediate nature that must be corrected if the unit is to continue to provide safe and adequate shelter. Examples of such defects are shaky or unsafe porch or steps; broken plaster, rotted window sills or frames. Such defects are signs of neglect which lead to serious structural damage if not corrected.

Dilapidated housing does not provide safe and adequate shelter. It has one or more critical defects; or has a combination of intermediate defects; or is of inadequate original construction. Critical defects are those that indicate continued neglect and serious damage to the structure.

[4] For the purposes of this study an evaluation of the absolute number of substandard homes is not sufficient; it is equally important to know what the *changes* in housing quality have been in the past and what they might be in the future. For this reason it is necessary that the data for different years be comparable. The definition of dilapidated housing in 1960 was theoretically unchanged from the definition used in the 1950 census. In the 1950 census the enumerator was required to classify a unit into one of two categories: "not dilapidated" and "dilapidated." In the 1960 census the classification of "not dilapidated" was theoretically divided into two parts—"sound" and "deteriorating." However, in the opinion of some housing experts, the dilapidated count of the 1950 census should be compared with the "dilapidated" count plus some per cent of the "deteriorating" count in 1960.

"Anyone familiar with the problem of training 150,000 enumerators on a mass production basis can well understand the difficulty of getting across fine distinctions in definitions. In 1950, the enumerator probably completed his training with the general impression that housing units were to be classified as good or bad (not dilapidated or dilapidated). In 1960, it is likely that this training would have left him with the impression that he should classify units into good, bad, and very bad (sound, deteriorating, or dilapidated). The training film emphasized, of course, that 'bad' in 1950 was the same as 'very bad' in 1960, but through the blur of several short days of training on a thousand and one items, the average enumerator could hardly be expected to remember more than the most obvious of instructions: It is believed very probable, therefore, that the dilapidated count of 1950 should be compared with the dilapidated count plus some per cent of the 'deteriorating' count in 1960." (From a report prepared by Mr. Joseph P. McMurray in 1960. Mr. McMurray was chairman of the Task Force on Housing appointed by President John F. Kennedy.)

In order to compensate for this it is necessary to devise two new categories for 1960 which are comparable with the 1950 categories of "not dilapidated" and "dilapidated." The first of these new categories includes

all sound and deteriorating housing *with* all plumbing facilities. This category is comparable with the 1950 category of "not dilapidated." The second category includes dilapidated dwelling units plus sound and deteriorating dwelling units which lack one or more plumbing facilities. This second new category is comparable with the 1950 category of dilapidated.

The data for 1940 are only roughly comparable with the 1950 and 1960 data. A "major repairs" category was used in 1940, and no reliable data have been obtained to compare the relationship of this category with the "dilapidated" category of 1950. Using the modified 1960 census figures, it is possible to get a reasonably valid comparison of the 1940 census figures with those of 1950 and 1960.

[5] *Statistical Abstract of the United States*, U.S. Department of Commerce, 1961, Washington, D. C., p. 769.

[6] United States Bureau of the Census, 1950, Vol. 1, Part 1, Table 1; Advanced Reports, HC(A1)-52, 1960, Table 1.

[7] *Guiding Metropolitan Growth*, Committee for Economic Development, New York, August 1960, p. 18.

[8] Wurster, Catherine B., "Framework for an Urban Society," in *Goals for Americans*, The report of the President's Committee on National Goals, Englewood Cliffs, N.J., Prentice-Hall, Inc., 1960.

[9] Note: In 1950 the Bureau of the Census only made income distributions for cities available for the combined category of families and unattached individuals. To correct for this, it was assumed that the relationship between the income distribution of families and the income distribution of unattached individuals for the whole United States would be the same as in the cities. Proceeding on this assumption, the income distribution for families and for unattached individuals in cities was adjusted to show the estimated distribution of income for families living in cities for 1950.

CHAPTER FOURTEEN

CONCLUSION: REPEAL THE URBAN RENEWAL PROGRAM

Even when laws have been written down,
They ought not always to remain unaltered.

Aristotle

Some argue that it is too early to judge the federal urban renewal program; they say, "The program is only fifteen years old. Projects take longer to complete than we anticipated, often longer than ten years. The program is still in the experimental stage; it hasn't worked out as well as we hoped." This line of argument holds that government programs should not be judged unless they are finished or unless they are proceeding as planned. The historians will analyze and judge later; for the decision makers the time for judgment is now. Today's decisions will govern the future course of urban renewal. The decisions must be made now and they cannot be made in a vacuum of knowledge — to postpone evaluation is simply to advocate implicitly the continuance of the program without knowing why.

Since 1949 the federal urban renewal program has been growing in scope and size, leaving a clear trail, a trail that shows what it has done and what it is likely to do. When initiated, the program was experimental. Let us consider the program an experiment and judge its results.

So far the federal urban renewal program has been a political asset to many local politicians — they could boast of "getting their share of the federal money" and prove their claims of "getting the city moving again" by pointing to bulldozers and cranes busily destroying and rebuilding. Usually, since it was the poor people, Negroes, and Puerto Ricans who were getting pushed around, many people did not hear much about the program or did not care.

However, there have been a significant number of instances of active resistance to the program. As more people are forced from their homes, as more businesses are forced to close their doors, as more billions of public money are spent, criticism of the program grows. Some of the leading experts on urban affairs in the United States are beginning to wonder what will happen when more people become aware of the many implications of urban renewal. In October 1961, Professor Martin Meyerson, then Director of the Joint Center for Urban Studies of M.I.T. and Harvard, made the following statement:

> Let us also assume that urban renewal has a peculiar mystique — some people somehow have a vision of a better city through urban renewal, more attractive, more convenient, and so on. Now, as long as that mystique exists you find in city after city political acceptance of urban renewal. But this is before urban renewal actually gets achieved. The results of urban renewal are still to be assessed. As you say, fly in a helicopter and you see little urban renewal. Now, since this is so, the political acceptance of course is a symbolic rather than a real one, because as soon as people begin facing the implications of urban renewal, I think that the support will wither and turn in considerable measure to hostility unless the area to be cleared has through market forces become meaningless to anybody.[1]

Professor Meyerson is not alone in this view. Dr. David Wallace, a Professor of City Planning at the University of Pennsylvania, recently stated:

> One thing is sure, in almost every instance where and when the public and their elected representatives understand the full implications of our urban renewal efforts, they object . . . Politicians are beginning to say, "Let's go easy. Don't rock the boat. Let's let the dust settle." The initial lustre of a little-understood program

has now worn off. The hard and politically unpalatable realities of costs, taxes and displacement stare them in the face.[2]

By the end of 1963 this resistance was beginning to intensify. The following view was expressed by James Q. Wilson, Director of the Joint Center for Urban Studies of M.I.T. and Harvard:

> The growth of neighborhood resistance to urban renewal has been gradual and cumulative. Many of the earliest redevelopment projects were completed with little organized opposition. Somehow, however, people have learned from the experience of others, and today, in cities which have been engaged in renewal for several years, the planners often find prospective renewal areas ready and waiting for them, organized to the teeth.[3]

Who wants urban renewal? Certainly not the lower-income groups — they get displaced from their homes to make way for the modern apartments they cannot afford to rent. It is hard to know whether the middle class is much concerned with the changes that have occurred in the cities. Of course, they care somewhat; almost everyone would agree that a beautiful, clean city is preferable to an unattractive, dirty one. But their degree of concern can be determined by asking how much they would give up of what they have or hope to have in order to realize the goals of urban renewal. The achievement of these goals would make it necessary for people to allocate a much larger share of their income to someone else's housing and public facilities. There has been little indication of a strong desire to do this in the past, and it seems doubtful that their values will change significantly during the next ten to twenty years.

Then who is behind the tremendous push for urban renewal? Raymond Vernon, former Director of the New York Metropolitan Region Study, has speculated that the main stimulus for urban renewal comes from two elite groups — the wealthy elite and the intellectual elite.[4] Both groups have strong economic and social attachments to the central city. And they are in a position to attempt to maintain these attachments despite the desires and wishes of the nonelite. Members of these elite groups include financial institutions, newspapers, department stores, owners of downtown real estate, academic intellectuals, city planners, city

politicians, and others who have a strong stake in the maintenance and improvement of the city as they see it today.

In general, Vernon's proposition appears to be reasonable. There is a general feeling among the people of the United States that the federal urban renewal program is attempting to revitalize run-down areas of cities and help the people living in these areas. But our examination of what the program actually does indicates that it revitalizes run-down areas of cities primarily for the benefit of people who do not live in run-down areas. A hard, searching look should be taken at the following question: Is the federal urban renewal program effectively creating new urban communities consisting of people whose level of income is higher, whose skin is whiter, and whose social characteristics are more desirable than those of the former residents?

Beliefs and Facts

Certain beliefs and convictions about the federal urban renewal program have been quite persistent. These benefits concern the scope and nature of the problems that urban renewal purports to solve and the extent and significance of the contribution that urban renewal makes. In an effort to clear away some of the haze that surrounds the program, beliefs concerning some of the most important parts of the program have been placed in juxtaposition with the best available facts and estimates. Reading down the left-hand column of *beliefs* leads one almost inescapably to the seemingly logical conclusion that the federal urban renewal program is desirable. Reading down the right-hand column of *facts and estimates* leads one just as surely to the more factually substantiated conclusion that the federal urban renewal program is undesirable.

Beliefs	Facts and Estimates
Housing quality in the United States deteriorated badly during	The decade from 1950 to 1960 witnessed what was probably the

Beliefs (*cont.*)	Facts and Estimates (*cont.*)
the decade from 1950 to 1960, especially in the major cities.	greatest improvement in housing quality ever shown in the United States. This was also true for the cities, especially the major ones.
The middle-income group is becoming less important in the life of the city, as the low-income, minority groups and the high-income groups gain in relative importance.	Middle-income people today constitute 57 per cent of the population of cities with over 100,000 population. Their importance relative to low- and high-income groups has remained essentially unchanged since 1950. Large cities have a relatively greater share of the middle-income population than does the country as a whole.
The federal urban renewal program has made a significant contribution toward solving the housing problem, especially for low- and middle-income groups.	The federal urban renewal program has made it more difficult for low- and middle-income groups to obtain housing because of the amount of low-rent housing it has destroyed.
Most of the new buildings constructed in urban renewal areas are public housing for low-income families.	Most of the new buildings constructed in urban renewal areas are high-rise apartment buildings for high-income families; only 6 per cent of the construction is public housing.
The families that are required to move from their homes by the federal urban renewal program move into better housing in better neighborhoods.	Many of the families that are required to move go into housing as bad as or worse than their original homes in neighborhoods that are as bad or worse than their original neighborhoods. And they often pay higher rents at the new location.
Urban renewal helps poor people,	Urban renewal helps upper-in-

Beliefs (*cont.*)	Facts and Estimates (*cont.*)
especially those from minority groups.	come people and a few elite groups. It hurts low-income people, especially those from minority groups.
Urban renewal does not affect one racial group more than any other.	Over 60 per cent of the people forced to move are either Negroes, Puerto Ricans, or members of other minority groups.
The federal urban renewal does not really affect many people.	In 1962, 1,665,000 persons had been or were about to be required to move from their homes. If the program continues to expand, more millions will be displaced in the future.
Urban renewal eliminates slums and prevents the spread of blight.	It is likely that urban renewal simply shifts slums and thus encourages the spread of slums and blight.
Urban renewal generates a large increase in the tax revenues of the city.	So far, urban renewal may have caused a decrease in cities' tax revenues. Indications are that the chances of urban renewal increasing tax revenues are small, and if they do increase, it is likely that the increase will be slight.
Urban renewal plays an important role in the economy of the United States; its role in the economy of cities is very important.	Urban renewal plays an insignificant role in the economy of the United States; its role in the economy of cities is slightly greater, but still insignificant.
If it had not been for the federal urban renewal program, the new buildings erected on urban re-	It is estimated that 50 per cent of the new construction put up on urban renewal sites would have

BELIEFS (*cont.*)	FACTS AND ESTIMATES (*cont.*)
newal sites would not have been built within the city.	been put up elsewhere in the city, even if the federal urban renewal program had not existed.
The private construction put up in urban renewal areas is wholly financed by private lending institutions.	Approximately 35 per cent of the private construction in urban renewal areas has been financed by the federal government through one of its agencies, the Federal National Mortgage Association.
Most of the money used for urban renewal comes from private sources. For every $1 contributed by the government, private interests invest about $4.	A large part of the money used for urban renewal comes from the government. For every $1 contributed by the government in the form of grants and loans, private interests invest about $1, not $4.
A typical urban renewal project only takes a few years to complete.	Urban renewal takes a very long time. The typical project takes almost twelve years to complete.
Urban renewal construction is profitable for private developers.	So far the private developers have not made much money. The potential profit is there, but they have been unable to tap it.
Rehabilitation is superior to redevelopment. People are not required to move from their homes, it does not cost as much, and it is fairly easy to accomplish.	Rehabilitation has most of the same consequences as redevelopment. People are required to move from their homes either because they cannot afford to rehabilitate them, or because they do not want to rehabilitate them. Relatively large amounts of public subsidy are necessary, and the administration of the program is complex and time-consuming. It seems doubtful that any significant progress will be made in this area.

Beliefs (*cont.*)	Facts and Estimates (*cont.*)
The constitutionality of the federal urban renewal program has been established beyond question.	The constitutionality of the federal urban renewal program is still an open issue, and a strong case can be made that it is not constitutional.
Urban renewal is definitely in the public interest, that is, its net result is "good" when looked at from the national viewpoint.	It has never been clearly established that urban renewal is in the public interest. In fact, a strong argument can be made that it is not in the public interest.
The acceptance of the urban renewal program has been widespread, and the politicians are only responding to the desires of the people.	Few individuals know any of the consequences of urban renewal. Widespread ignorance of the program and apathy toward it have been interpreted as widespread acceptance. Believing this, the politicians have been quick to accept arguments for urban renewal presented by a few elite groups.
The preceding beliefs indicate that the net results of the federal urban renewal program have been favorable.	The preceding facts and estimates indicate that the net results of the federal urban renewal program have been unfavorable.

What Should Be Done?

If the federal urban renewal program is undesirable in its present form, what should be done? There are four paths the program could take in the future:

1. The program could be continued under the same principles and expanded.
2. The program could be modified so that it would work effectively without any of its present detriments.

3. The program could be eliminated and its main functions turned over to other federal and local agencies that are set up to attempt to deal with these problems more specifically.
4. The federal urban renewal program could be repealed.

Let us take a look at the implications of each path.

If the program is maintained in its present form and expanded, it is almost certain that the same difficulties encountered in the past will also be encountered in the future, only on a much larger scale. Drastic steps would become necessary as the number of people forced to move and the amount of money spent increased. The cost in freedom and dollars would be tremendous.

So far the "incentives" of land write-down, large assembled tracts of city land, and government-financed mortgages have not been sufficient to attract private developers on a large scale into urban renewal areas cleared of tax-producing property. More powerful government incentives would be necessary to direct and induce development in urban renewal areas. For example, some of the ones that might have to be used are:

1. Increased local real estate tax concessions.
2. Increased federal share of net project cost.
3. More emphasis on rehabilitation, with substantial financial assistance from the federal government.
4. Subsidized federal loans to private developers at below market interest rates.
5. An extension of all these "incentives" to commercial and industrial construction.

Government controls over housing would have to be expanded. The relocation problem would grow swiftly and require more direct control by government officials. Vast areas of city land would come under direct control of local city officials and under indirect control of federal officials.

All the steps that would tend to accelerate the program and that would produce quantities of gleaming, new buildings would require substantial increases in the amount of public subsidy and governmental control. In view of what such an ex-

panded program would probably accomplish, these costs are not warranted. Expanding the present program is not a sensible course of action.

Perhaps a sounder course would be the second alternative: modify the present program. Let us examine some of the actions that could be taken. These are not presented as the best solution, but merely as a way of alleviating a bad situation.

The first modification that should be taken is to protect the people who become the pawns of the urban renewal game. If the program must continue, neither families, individuals, or businesses should be forced to move unless good housing they can afford has been located in good neighborhoods in which they would like to live. It seems inevitable at this point that a greatly expanded public housing program is the only way to provide this. In effect, the pace of the urban renewal program would, in large part, be determined by the pace of the public housing program.

Second, project areas should be developed piecemeal; that is, the whole process should be staged. It seems senseless to destroy thousands of private homes in the name of urban renewal and then to use the cleared area for a parking lot while the city scurries about trying to induce some private developer to build something.

Third, nobody should be forced to leave his home until firm commitments have been received from private developers for development of all the land that is to be cleared.

Fourth, the federal share of the program could be put on a matching cash-for-cash basis. The federal taxpayers would match in cash any cash that the city taxpayers put up. This would effectively discourage many of the cities who are engaged in federal urban renewal only to make sure they get their share of the available money.

Fifth, each urban renewal project could be voted on in a city-wide special election. This would reflect more accurately the attitude of the people living in the city toward the whole concept of urban renewal, and could keep some of the main issues before the public.

Sixth, do not allow the federal government to subsidize the

construction of apartment buildings, which can be occupied only by high-income families, by selling the urban renewal land for less than it cost to assemble, clear, and prepare it. If low-income housing is to be replaced with luxury housing, the least that can be done is to make sure that this housing is not partially paid for by the federal taxpayers.

Seventh, make it clear to the people of the United States that the federal government is loaning large amounts of public money to private redevelopers to finance the construction of these high-rise apartments. If it appears that the taxpayers do not approve of this use of their money, halt the lending program.

The net result of all these actions, which seem desirable in any modification of the program, would probably be a drastic curtailment in urban renewal project activity. If people are not moved out before good housing is available for them, the program will be slowed down considerably because of the slow pace of the public housing program. If large areas of land are not cleared, it will be difficult to get private developers to come in because they will feel that the surrounding area is detrimental to the development of the proposed area. If the federal government provides money only on a matching basis, urban renewal projects will cease to be as tempting to cities as they now are. Voting on each urban renewal project would require convincing a majority of the voters that the project was worth while. This might make the initiation of a project more difficult. If the government required the developers who build high-rise apartment houses to pay the full costs of acquiring and developing the land, considerably fewer buildings would be erected. If the federal government also stopped lending public funds to private developers to build these apartment houses, the amount of residential construction in urban renewal areas would be reduced even further.

In conclusion, it seems that if extensive modifications of the kind just mentioned were made, project activity would slow down considerably. This illustrates clearly what happens when one attempts to modify an inherently bad program. It becomes obvious that the program cannot work without its bad aspects,

and any attempt to lessen the costs associated with the program does nothing more than to slow down the program. The net result is that, while the costs may be decreased, the costs are still there, large and real, and the so-called benefits become almost nonexistent.

The third possible alternative would be to eliminate the Urban Renewal Administration and with it, the federal urban renewal program. The parts of the federal urban renewal program that deal with such problems as low-income housing, the financing of middle-income housing, and the financing of community facilities could be transferred to other agencies of the Housing and Home Finance Agency. These agencies have been set up by the federal government to deal specifically with these areas. Low-income housing could be taken care of by the Public Housing Administration, the financing of middle-income housing by the Federal National Mortgage Association (these mortgages could also be insured by the Federal Housing Administration to induce private lenders to hold them), and the financing of community facilities by the Community Facilities Administration. The areas of operations that would be eliminated by such a step would be

1. Federal direction of over-all community planning.
2. Federal subsidies of community facilities.
3. The use of the power of eminent domain to seize private property from some so that it can be used by other private individuals for their own purposes.

These eliminations would not be losses; they would be gains.

Of course, many of the basic operations of the program would proceed as before — public housing would be built, housing loans would be made indirectly by the government, mortgages would be insured by the government, and local communities could borrow money from the federal government to build public facilities. However, these activities would now be clarified so that one could easily find out what was going on in each of the areas, something that is virtually impossible to determine in the complex workings of the federal urban renewal program.

The fourth alternative is to repeal the federal urban renewal

program. This could be accomplished simply by not authorizing any new projects. All projects under contract would be carried through to completion as quickly as possible if the individual cities desired to finish them. What would be the results of such drastic, radical action? Would slums proliferate, would housing get worse, would cities die? The answers are clearly no — the record of what has been achieved outside of the federal urban renewal program by private forces is an eloquent testimony to what can be done by a basically free-enterprise system. Compare the accomplishments of the federal urban renewal program, guided by the visible hand of the urban experts, with the accomplishments of the plans of private individuals, guided by the invisible hand of the free market place. If this is what can be accomplished by a relatively free housing market, the rational course of action is to allow it to function, not to attack and fight it. The federal urban renewal program attempted to run counter to the tide of the private market — the results have been dismal.

Conclusions

In 1949 Congress attempted to alleviate existing housing and urban problems by the creation of a federal urban renewal program. Implicit in this was the assumption that the private housing market could not do the job well enough or fast enough without substantial federal aid. Thus, two forces set forth to grapple with the problems of housing and cities. One of these forces was private enterprise, guided by the complex interplay of the market place. The other was the federal urban renewal program, guided by over-all plans prepared by experts.

There are strong indications that private enterprise made substantial gains, while the federal program did not. The over-all results of federal urban renewal indicate that it is a regressive program, rather than progressive. It benefits high-income groups and hurts low-income groups. Its results, when compared with the results of private forces, are negligible. Its costs, when compared with the results of the program, are high. The total impact of the program on the economy of the United States has been

small. From 1950 to 1960 less than one tenth of 1 per cent of all construction activity took place in urban renewal areas. Even its impact on large cities was small; urban renewal construction constituted less than 1.3 per cent of all building construction in these cities from 1950 to 1960.

A typical urban renewal project takes a long time. The planning phase for an average project takes approximately three years. The over-all length of time, from start of planning to completion of new construction, needed for an average project is about 12 years.

The composition of the construction started reveals the character of the program. Of the estimated $824 million of construction started by March of 1961, 56 per cent was private residential housing, 6 per cent public housing, 24 per cent public facilities, 10 per cent commercial, and 4 per cent industrial. The median monthly rent of the private residential apartments built in 1962, which mainly replaced low-rent housing, was $195. About 43 per cent of the new private residential construction is financed by the federal government via FNMA. The federal urban renewal program has actually aggravated the housing shortage for low-income groups. From 1950 to 1960, 126,000 dwelling units, most of them low-rent ones, were destroyed. This study estimates that the number of new dwelling units constructed is less than one fourth of the number demolished, and that most of the new units are high-rent ones. Contrast the net addition of millions of standard dwelling units to the housing supply by private enterprise with the minute construction effort of the federal urban renewal program.

It is commonly believed that most of the total cost of the federal urban renewal program is borne by private enterprise. Somewhere between $3 to $5 of private investment is expected to result from every $1 of public investment. In light of developments in this study, these figures seem overly optimistic. It appears that the amount of private investment generated by each $1 of public investment is closer to $1; and because a substantial part of urban renewal construction activity is shifted from other areas, the net gain is probably in the order of $0.50.

The personal costs of the program are difficult to evaluate. Hundreds of thousands of people have been forcibly evicted from their homes in the past and it will not be long before the number passes the million mark. The indications are that these people have not been helped in any significant way. Their incomes remain the same, they are still discriminated against, and their social characteristics remain essentially unchanged. It appears that the federal urban renewal program has not achieved its social objectives to any measurable extent in the past, and, if the program continues in the same pattern, it is unlikely that it will achieve them in the future. On balance, the federal urban renewal program has accomplished little in the past and it appears doubtful if it will accomplish much in the future. This raises a serious question: On what grounds does the federal government justify continuing and expanding the present program?

It is recommended that the federal urban renewal program be repealed now. No new projects should be authorized; the program should be phased out by completing, as soon as possible, all current projects. The federal urban renewal program conceived in 1949 had admirable goals. Unfortunately it has not achieved them in the past and cannot achieve them in the future. Only free enterprise can.

Chapter Fourteen Notes

[1] Meyerson, Martin, quoted in Raymond Vernon, *The Myth and Reality of Our Urban Problems*, published by Harvard University Press for The Joint Center for Urban Studies of the Massachusetts Institute of Technology and Harvard University, 1962, p. 83.

[2] Wallace, David, "Beggars on Horseback," Papers from Philadelphia Housing Association's 50th Anniversary Forum, 1961.

[3] Wilson, James Q., "Planning and Politics: Citizen Participation in Urban Renewal," *Journal of the American Institute of Planners*, Vol. 29 (November 1963), p. 243.

[4] Vernon, Raymond, *The Myth and Reality of Our Urban Problems*, *op. cit.*, pp. 59–62.

APPENDIX A

TABLE A.1

CUMULATIVE GROSS PROJECT COST, DISPOSITION PROCEEDS, AND PER CENT WRITE-DOWN FOR URBAN RENEWAL PROJECTS APPROVED UNDER THE TWO-THIRDS FORMULA (*thousands of dollars*)

Year	*Cumulative Gross Project Cost*	*Cumulative Expected Disposition Proceeds from Sale of Land*	*Per Cent Write-Down*
1954	$ 317,290	$ 89,853	71.7
1955	397,736	111,004	71.3
1956	460,633	134,332	70.8
1957	833,285	262,469	68.5
1958	1,290,912	401,448	68.9
1959	1,743,442	551,906	68.3
1960	2,206,349	677,463	69.3
1961	2,915,450	880,321	69.8
1962	3,257,810	974,847	70.1

SOURCE: Urban Renewal Project Characteristics, Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., 1954–1962.

TABLE A.2

PLANNING ADVANCES FOR URBAN RENEWAL — CUMULATIVE (*thousands of dollars*)

Year	Contracts Authorized	Activity Under Contracts		
		Disbursed	Repaid	Outstanding
1950	$ 3,066	$ 889	$ —	$ 889
1951	5,824	3,470	—	3,470
1952	9,377	6,511	604	5,907
1953	11,120	8,465	2,092	6,372
1954	14,002	10,027	3,339	6,687
1955	19,984	12,433	4,502	7,929
1956	29,805	16,353	6,781	9,570
1957	35,829	21,524	9,522	11,999
1958	45,730	29,459	15,282	14,173
1959	51,105	37,679	21,462	16,213
1960	66,494	48,638	31,219	17,415
1961	86,296	62,532	38,961	23,567
1962	111,222	80,152	47,337	32,811

SOURCE: 16th Annual Report, 1962, Housing and Home Finance Agency, Washington 25, D. C., 1962, Table VII-3, p. 295.

TABLE A.3

TEMPORARY LOANS FOR URBAN RENEWAL — FEDERAL AND FEDERALLY GUARANTEED — CUMULATIVE 1950 THROUGH 1962 (*thousands of dollars*)

Year	*Authorized*	*Disbursed*	*Repaid*	*Per Cent Repaid*	*Refunded*	*Outstanding*
1950	$ —	$ —	$ —	—	$ —	$ —
1951	282	—	—	—	—	—
1952	33,890	9,714	140	1.4	—	9,574
1953	104,068	41,690	2,345	5.6	6,512	32,834
1954	132,075	78,339	4,245	5.4	20,431	53,665
1955	184,907	130,583	25,014	19.2	42,159	63,412
1956	236,972	194,951	40,272	20.7	53,681	100,999
1957	454,815	300,480	58,117	19.0	72,111	170,252
1958	804,522	463,856	87,207	18.8	95,806	280,843
1959	1,164,175	795,318	122,503	15.4	219,722	453,094
1960	1,543,754	1,199,766	202,986	16.9	346,784	649,998
1961	1,924,434	1,635,995	297,220	18.2	440,576	898,201
1962	2,293,485	1,997,196	415,136	20.8	554,293	1,027,768

SOURCE: 16th Annual Report, 1962, Housing and Home Finance Agency, Washington 25, D. C., Table VII-3, p. 295.

TABLE A.4

BREAKDOWN OF FEDERAL AND FEDERALLY GUARANTEED TEMPORARY LOANS — CUMULATIVE 1950 THROUGH 1962

Year	*Per Cent Federal*	*Per Cent Nonfederal*
1950	—	—
1951	—	—
1952	100.0	—
1953	73.8	26.2
1954	71.0	29.0
1955	56.5	43.5
1956	48.8	51.2
1957	42.1	57.9
1958	38.4	61.6
1959	34.5	65.5
1960	31.9	68.1
1961	29.6	70.4
1962	30.7	69.3

SOURCE: 16th Annual Report, 1962, Housing and Home Finance Agency, Washington 25, D. C., 1962, Table VII-3, p. 295.

TABLE A.5

CAPITAL GRANTS FOR URBAN RENEWAL — CUMULATIVE 1950 THROUGH 1962 (*thousands of dollars*)

Year	*Grant Reservations or Earmarkings*	*Grant Contracts Authorized*	*Amount of Authorized Grants Disbursed*	*Per Cent of Authorized Grants Disbursed*
1950	$ 198,774	$ —	$ —	—
1951	282,725	402	—	—
1952	329,229	54,098	—	—
1953	348,540	105,206	8,673	8.2
1954	377,171	146,598	21,270	15.2
1955	553,666	185,163	58,850	31.7
1956	826,684	219,595	75,141	34.2
1957	1,019,294	387,300	105,759	27.4
1958	1,324,478	613,940	155,839	25.4
1959	1,388,648	867,531	234,733	27.1
1960	1,866,160	1,134,606	370,281	32.8
1961	2,467,632	1,399,516	520,147	37.3
1962	3,014,314	1,686,750	712,106	42.2

SOURCE: 16th Annual Report, 1962, Housing and Home Finance Agency, Washington 25, D. C., Tables VII-2 and VII-3, p. 295.

TABLE A.6

FINANCING OF NET PROJECT COST — TWO-THIRDS FORMULA — CUMULATIVE 1954 THROUGH 1962 (*thousands of dollars*)

Year	*Net Project Cost*	*Federal Grant*	*Local Cash*	*Local Supporting Facilities*	*Local Site Improvements*	*Local Land Donations*	*Local Demolition*
1954	$ 227,437	$ 147,603	$ 35,282	$ 30,557	$ 9,158	$ 4,227	$ 610
	(100%)	(64.9%)	(15.5%)	(13.4%)	(4.0%)	(1.9%)	(0.3%)
1955	283,732	184,530	47,472	33,958	10,782	6,330	660
	(100)	(65.0)	(16.8)	(12.0)	(3.8)	(2.2)	(0.2)
1956	326,301	214,064	53,781	36,262	13,152	8,208	834
	(100)	(65.6)	(16.5)	(11.1)	(4.0)	(2.5)	(0.3)
1957	570,816	373,908	85,148	71,679	24,779	13,511	1,791
	(100)	(65.5)	(14.9)	(12.6)	(4.3)	(2.4)	(0.3)
1958	889,464	569,282	124,654	122,486	52,751	17,911	2,380
	(100)	(64.0)	(14.0)	(13.8)	(5.9)	(2.0)	(0.3)
1959	1,191,536	766,033	176,881	153,223	74,081	18,272	3,046
	(100)	(64.3)	(14.8)	(12.9)	(6.2)	(1.5)	(0.3)
1960	1,528,886	993,772	208,438	201,706	97,989	21,334	3,841
	(100)	(65.0)	(13.7)	(13.2)	(6.4)	(1.4)	(0.3)
1961	2,035,129	1,318,283	273,351	269,695	129,733	26,138	5,921
	(100)	(65.1)	(13.6)	(13.3)	(6.4)	(1.3)	(0.3)
1962	2,282,963	1,481,043	294,111	294,754	146,480	28,467	5,731
	(100)	(65.0)	(12.9)	(12.9)	(6.4)	(1.2)	(0.3)

SOURCE: Urban Renewal Project Characteristics, Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C., 1954–1962.

TABLE A.7

NUMBER OF URBAN RENEWAL PROJECTS (INCLUDING GNRP'S) — CUMULATIVE 1950 THROUGH 1962

Year	*Total Number of Projects*	*Number in Planning*	*Number in Execution*	*Number Completed*
1950	124	116	8	—
1951	201	192	9	—
1952	259	232	27	—
1953	260	199	61	—
1954	278	191	87	—
1955	340	230	110	—
1956	432	299	132	1
1957	494	301	189	4
1958	645	354	281	10
1959	689	298	365	26
1960	838	353	444	41
1961	1012	429	518	65
1962	1210	536	588	86

SOURCE: 16th Annual Report, 1962, Housing and Home Finance Agency, Washington 25, D. C., Table VII-2, p. 295.

1963 1401 671 116

1964 1545 505 796 174

TABLE A.8

URBAN RENEWAL GRANTS — CUMULATIVE — MARCH 31, 1961

State	Rank by Amount "Reserved"	Total Amount of Grants "Reserved"*	Total Amount of Grants Disbursed	Per Cent of "Reserved" Grants Disbursed
New York	1	$289,195,515	$84,260,374	29.1%
Pennsylvania	2	257,854,901	47,708,308	18.5
New Jersey	3	127,971,307	18,496,518	14.5
Illinois	4	121,296,473	40,564,007	33.4
Massachusetts	5	106,297,044	15,891,792	15.1
California	6	105,206,479	16,000,843	15.2
Connecticut	7	103,655,800	19,165,589	18.5
Ohio	8	103,543,796	17,749,348	17.1
Missouri	9	83,124,222	14,390,845	17.3
Michigan	10	72,826,655	15,310,294	21.0
Tennessee	11	67,802,383	18,697,839	27.5
District of Columbia	12	66,226,175	17,077,167	25.7
Maryland	13	51,110,810	9,400,407	18.4
Virginia	14	45,415,042	18,276,524	40.2
Georgia	15	34,651,643	5,731,100	16.5
Minnesota	16	29,831,716	10,164,986	34.0
Alabama	17	29,287,589	6,171,109	21.1
Puerto Rico	18	28,216,621	6,501,747	23.0
Indiana	19	25,103,726	1,518,430	6.0
Hawaii	20	22,626,414	1,705,511	7.5
Texas	21	21,700,733	—	—
Kentucky	22	20,409,167	2,029,179	9.9
Rhode Island	23	18,048,720	4,792,144	26.6
Kansas	24	16,397,453	1,390,159	8.5

(*continued*)

TABLE A.8 (*continued*)

State	Rank by Amount "Reserved"	Total Amount of Grants "Reserved"*	Total Amount of Grants Disbursed	Per Cent of "Reserved" Grants Disbursed
North Carolina	25	14,932,931	—	—
Arkansas	26	14,245,491	2,076,250	14.6
Wisconsin	27	14,063,030	2,365,751	16.8
Washington	28	13,520,730	326,890	2.4
Iowa	29	9,064,986	—	—
Florida	30	7,117,828	—	—
Maine	31	5,559,551	613,698	11.0
Colorado	32	5,206,273	9,549	0.2
Oregon	33	4,965,455	2,096,561	42.2
Alaska	34	4,244,337	737,018	17.4
Delaware	35	3,906,818	1,144,834	29.3
West Virginia	36	3,541,353	—	—
New Hampshire	37	3,172,699	1,244,141	39.2
Arizona	38	2,441,000	—	—
Nevada	39	1,719,699	399,141	23.2
North Dakota	40	1,434,670	806,653	56.2
Vermont	41	1,409,838	—	—
South Carolina	42	1,193,294	160,445	13.4
Virgin Islands	43	758,000	—	—
Oklahoma	44	587,508	—	—
New Mexico	45	358,057	—	—
Louisiana	46	1,939	1,939	100.0

* "Reserved" grants refers to the Urban Renewal Administration's estimate of the total amount of grants that are likely to be requested by local renewal agencies based on their current plans.

SOURCE: Urban Renewal Project Directory, Urban Renewal Administration, Washington 25, D. C., March 31, 1961.

TABLE A.9

ESTIMATES OF CUMULATIVE EXPENDITURES FOR URBAN RENEWAL 1950 THROUGH 1962 (*thousands of dollars*)

Year	*Advances*	*Temporary Loans*	*50 Per Cent of Capital Grants*	*Estimated Total Expenditures*
1950	$ 889	$ —	$ —	$ 889
1951	3,470	—	—	3,470
1952	6,511	9,714	—	16,225
1953	8,465	41,690	4,337	54,492
1954	10,027	78,339	10,635	99,001
1955	12,433	130,583	29,425	172,451
1956	16,353	194,951	37,571	248,875
1957	21,524	300,480	52,880	374,794
1958	29,459	463,856	77,920	571,235
1959	37,679	795,318	117,367	950,371
1960	48,638	1,199,767	185,141	1,433,546
1961	62,532	1,635,995	260,074	1,958,601
1962	80,152	1,997,196	356,053	2,433,401

SOURCE: 16th Annual Report, 1962, Housing and Home Finance Agency, Washington 25, D. C., Table VII-2, p. 295.

TABLE A.10

STARTING DATES OF PLANNING FOR ALL URBAN RENEWAL PROJECTS — 1950 TO 1961

Year Planning Started	(1) Total Number of Projects	(2) Projects Not Indicating Planning Time	(3) Projects Indicating Planning Started	(4) Projects with Planning Complete	(5) (4) as a Per Cent of (3)
1950	79	6	73	73	100.0
1951	34	—	34	34	100.0
1952	36	—	36	36	100.0
1953	31	1	30	30	100.0
1954	34	—	34	33	97.1
1955	57	3	54	52	96.3
1956	120	15	105	95	90.5
1957	68	6	62	45	72.6
1958	117	5	112	77	68.8
1959	91	3	88	6	6.8
1960	226	17	209	10	4.8
1961*	69	9	60	—	—
TOTAL	962	65	897	491	54.7

* First Quarter.

SOURCE: Urban Renewal Project Directory, Urban Renewal Administration, Washington 25, D. C., March 31, 1961.

TABLE A.11

BREAKDOWN OF URBAN RENEWAL CONSTRUCTION STARTED, CUMULATIVE FROM BEGINNING OF PROGRAM TO MARCH 31, 1961 (*millions of dollars*)

Category	*Amount*		*Per Cent of Total*
Total Construction	$824		100.0
Private Residential	462		56.1
Business	115		13.9
Commercial	$ 80	9.7%	
Industrial	35	4.2	
Public	247		30.0
Public Housing	50	6.1	
Public and Semipublic	174	21.1	
Streets, Alleys, Rights of Way	23	2.8	

SOURCE: Physical Progress Quarterly Reports (unpublished), Urban Renewal Administration, Form H-6000, Washington 25, D. C., March 31, 1961; 191 projects reporting.

TABLE A.12

BREAKDOWN OF THE ESTIMATED TOTAL COST OF URBAN RENEWAL CONSTRUCTION REPORTED AS OF MARCH 31, 1961 (*millions of dollars*)

Category	*Amount*		*Per Cent of Total*
Total Construction	$3964		100.0
Private Residential	1511		38.1
Business	1601		40.4
Commercial	$1078	27.2%	
Industrial	523	13.2	
Public	852		21.5
Public Housing	75	1.9	
Public and Semipublic	677	17.1	
Streets, Alleys, Rights of Way	100	2.5	

SOURCE: Physical Progress Quarterly Reports (unpublished), Urban Renewal Administration, Form H-6000, Washington 25, D. C., March 31, 1961; 369 projects reporting.

TABLE A.13

BREAKDOWN BY TYPE OF CONSTRUCTION OF TOTAL COST OF CONSTRUCTION PLANNED BUT NOT ACTUALLY STARTED — AS OF MARCH 31, 1961 (*millions of dollars*)

Category	*Estimated Amount*	*Estimated Per Cent of* Total
Total Planned but Not Started	$3,140	100.0
Privately Owned Housing	1,049	33.4
Public Works	580	18.5
Commercial	998	31.8
Public Housing	25	0.8
Industrial	488	15.5

SOURCE: Physical Progress Quarterly Reports (unpublished), Urban Renewal Administration, Form H-6000, Washington 25, D. C., March 31, 1961.

TABLE A.14

TRADING ACTIVITY IN URBAN RENEWAL MORTGAGES — SECTION 220 — 1956 THROUGH 1962 (*thousands of dollars*)

Institution	*Purchases*	(*Sales*)	*Net* (*Sales*) *or Purchases*
State Banks	$13,323	($163,007)	($149,684)
Savings Banks	9,426	(16,720)	(7,294)
Mortgage Companies	3,441	(52,575)	(49,134)
Savings & Loan Associations	—	(3,200)	(3,200)
National Banks	5,367	(24,389)	(19,022)
Insurance Companies	26,484	(13)	26,471
All other	15,539	(551)	14,988
FNMA	199,013	(12,177)	186,836

SOURCE: 16th Annual Report, 1962, Housing and Home Finance Agency, Washington 25, D. C., Tables III-18, III-19.

Table A.15

PERCENTAGE DISTRIBUTION OF GROSS HOUSEHOLD INCOME, GROSS RENT, AND RENT-INCOME RATIO IN WASHINGTON PARK RENEWAL AREA, 1961

A. *Gross Annual Household Income*	
	Per Cent of Total
Under $1,500	11
$1,500–2,999	31
$3,000–4,499	33
$4,500–5,999	18
$6,000–7,499	4
$7,500 and over	3
TOTAL	100
B. *Gross Monthly Rent (including heat and utilities)*	
Under $50	6
$50–59	9
$60–69	21
$70–79	23
$80–89	19
$90–99	11
$100–109	8
$110 and over	3
TOTAL	100
C. *Rent-Income Ratio*	
Under .15	4
.15–.19	9
.20–.24	19
.25–.29	19
.30–.39	21
.40–.49	14
.50 and over	14
TOTAL	100

SOURCE: "The Washington Park Urban Renewal Area," an analysis of the economic feasibility of rehabilitation prepared by Chester Rapkin for the Boston Redevelopment Authority. Table based on a field survey by the Boston Redevelopment Authority.

TABLE A.16

HOUSING UNITS BY CONDITION AND PLUMBING FACILITIES: TOTAL AND NONWHITE OCCUPIED IN WASHINGTON PARK RENEWAL AREA AND BOSTON, 1960

	Washington Park				
	Total		*Nonwhite Occupied*		*Boston*
Condition	*Number*	*Per Cent*	*Number*	*Per Cent*	*Per Cent*
Sound	2,022	52	1,344	57	79
With all plumbing facilities	1,926	49	1,282	54	72
Lacking some or all facilities	96	3	62	3	7
Deteriorating	1,491	38	863	36	17
With all plumbing facilities	1,364	35	807	34	12
Lacking some or all facilities	127	3	56	2	5
Dilapidated	402	10	172	7	4
All Housing Units	3,916	100	2,379	100	100
Substandard Units (Dilapidated or lacking some or all plumbing facilities)	625	16	290	12	16

SOURCE: "The Washington Park Urban Renewal Area," report prepared by Chester Rapkin for the Boston Redevelopment Authority. Data compiled from U.S. Bureau of the Census, Census Tract Statistics, Advance Table PH-1, 1960.

TABLE A.17

UNITED STATES CONSTRUCTION* — 1945 THROUGH 1960 (*billions of dollars*)

Year	*Total Construction*	*Private Construction*	*Public Construction*	*Maintenance and Repair*
1945	$ 11.7	$ 3.2	$ 2.4	$ 6.1
1946	20.0	9.6	2.4	8.0
1947	27.0	13.3	3.4	10.3
1948	33.4	16.9	4.8	11.8
1949	34.7	16.4	6.4	11.9
1950	40.5	21.5	7.0	12.0
1951	44.5	21.8	9.4	13.3
1952	47.1	22.1	10.9	14.1
1953	49.6	23.9	11.4	14.3
1954	52.4	25.9	11.9	14.6
1955	58.9	30.6	12.4	15.9
1956	62.8	33.1	12.7	17.0
1957	65.8	33.8	14.1	17.9
1958	66.7	33.5	15.5	17.7
1959	73.4	38.0	16.1	19.3
1960	75.6†	39.6	16.0	20.0†
TOTAL	$637.3	$323.8	$137.4	$176.1

* Represents value of construction put in place during year; consequently differs from building permit and construction contract data which measure value of work started. Coverage generally broader than permit and contract data. Includes value and cost of installation of equipment which is integral part of structure, but not that of machinery, shipbuilding, or land costs.

† Estimate.

SOURCE: Statistical Abstract of the United States, 82nd ed., 1961, p. 747, Table 1040; 78th Ed., 1957, p. 752, Table 971.

TABLE A.18

BUILDING CONSTRUCTION* IN CITIES WITH OVER 100,000 POPULATION — 1950 THROUGH 1960 (*millions of dollars*)

Year	*Value of Construction Started*
1950	$ 4,660
1951	3,830
1952	3,720
1953	4,190
1954	4,420
1955	4,710
1956	4,770
1957	5,000
1958	5,570
1959	5,740
1960	6,000†
TOTAL	$52,610

* Value of construction started does not include land costs.
† Estimate.

SOURCE: Statistical Abstract of the United States, 1961 and other issues.

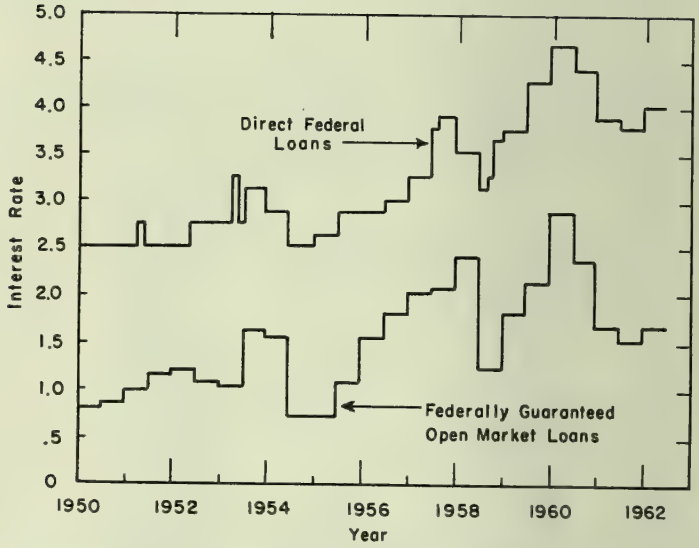


FIGURE A.1 *Course of interest rates on urban renewal temporary loans.*

SOURCE: Interview, Max Lipowitz, Director of Finance, Urban Renewal Administration, Washington 25, D. C., April 20, 1962.

APPENDIX B

Research Note Number One: Two-Thirds Formula Versus Three-Fourths Formula

To date almost all urban renewal projects have been undertaken under the two-thirds formula. When a local renewal agency elects this formula, all planning, administrative, and local overhead costs are included in gross project cost and the federal government pays up to *two thirds* of net project cost. If the three-fourths formula is elected, the planning, administrative, and local costs are not included in gross project cost and the federal government pays *three fourths* of net project cost. In an effort to determine the point at which one formula becomes preferable to the other, the following analysis may be employed.

Let:

P = planning, administrative costs, and local overhead costs

E = all other project execution costs

The local share L_1 under the two-thirds formula is given by

$$L_1 = 1/3P + 1/3E \tag{1}$$

Under the three-fourths formula the local share L_2 is given by

$$L_2 = P + 1/4E \tag{2}$$

If the local renewal agency can forecast P and E, and acts rationally, it will choose the formula that results in the lowest local cost. Thus if $L_2 > L_1$, the two-thirds formula would be preferable.

If $L_2 > L_1$, then

$$(P + 1/4E) > (1/3P + 1/3E) \tag{3}$$

Or, after combining like terms,

$$2/3P > 1/12E \tag{4}$$

Multiplying both sides of Equation 4 by 3/2 results in

$$P > 1/8E \tag{5}$$

For L_2 to be greater than L_1, P must be greater than one eighth of E. Therefore, as long as the planning and administrative costs are greater than one eighth of the rest of the execution costs, the two-thirds formula is preferable. If $P = E/8$, both formulas will produce the same result. If P is less than $E/8$, the three-fourths formula is preferable.

An examination of experiences of local renewal agencies indicates that some of the agencies are following a different course. For 463 projects for which the two-thirds formula is employed, the average P is 6.93 per cent of gross project cost, and the average E, 93.07 per cent. Thus E is 13.4 times as large as P, and, as was shown before, if E is greater than eight times as large as P, the election of the three-fourths formula results in a lower cost to the local renewal agency. Thus experience to date indicates that some local renewal agencies would have benefited if they had elected the three-fourths formula. Perhaps the local renewal agencies can profit from this if they undertake new projects.

Research Note Number Two

The following procedure was used to estimate the average planning period for urban renewal projects started during 1956. For projects started in 1956, 10 per cent of the projects had not completed planning by 1960, and it was assumed that when they are finished they will have a longer planning time than those completed by 1960. When this additional 10 per cent is included in the average planning time, the average planning time will therefore increase. To estimate how much the inclusion of these projects would increase the average, data from 1950 to 1955 were analyzed to determine how much the average planning time for any particular year increased when the 10 per cent of the projects with the longest planning time was added to the remaining 90 per cent. This information is summarized in Table B.1. The percentage increase in the average planning time for each year was then averaged for the six-year period from 1950 to 1955. The average percentage increase for the six-year period was 9.7 per cent.

On the assumption that this pattern will repeat itself in the future, it is estimated that when the remaining 10 per cent of the projects started in 1956 are finished they will raise the average planning time for projects started in 1956 by this percentage, that is, 9.7 per cent. The same estimating procedure was applied to projects started during 1957 and 1958.

TABLE B.1

ESTIMATES OF AVERAGE PLANNING PERIOD FOR PROJECTS THAT STARTED PLANNING DURING 1956, 1957, AND 1958 (*in years*)

Year Planning Started	*(A) Average Planning Times*	*(B) Average Planning Time for Shortest 90 Per Cent of Projects*	*(A-B)/B*	*(C) Average Planning Time for Shortest 73 Per Cent of Projects*	*(A-C)/C*	*(D) Average Planning Time for Shortest 69 Per Cent of Projects*	*(A-D)/D*
1950	4.55	4.14	0.099	3.46	0.316	3.30	0.379
1951	4.81	4.53	0.061	3.98	0.207	3.75	0.282
1952	3.46	3.14	0.101	2.43	0.421	2.23	0.549
1953	2.99	2.64	0.132	2.08	0.442	1.95	0.534
1954	3.21	2.89	0.110	2.46	0.305	2.22	0.447
1955	2.85	2.64	0.079	2.38	0.196	2.34	0.217
6-Year Average (1950-1955)	—	—	0.097	—	0.315	—	0.401
1956	3.13*	2.85	—	—	—	—	—
1957	3.25*	—	—	2.47	—	—	—
1958	2.90*	—	—	—	—	1.73	—

* Estimated.

SOURCE: Urban Renewal Project Directory, Urban Renewal Administration, Washington 25, D. C., March 31, 1961.

It is estimated that the average planning time of projects started planning in 1957 will be increased by 31.5 per cent when the unfinished projects are all completed. The comparable figure for 1958 was 41.5 per cent. The actual and estimated average planning times are given in Table B.1.

Research Note Number Three

When you apply learning-curve principles, it is reasonable to expect a substantial decrease in project execution time as the program gets older, but an examination of the diagram in Figure B.1 leaves one with the feeling that perhaps the indicated increase is too substantial. To correct for any overoptimism on the part of the local renewal agency, the following technique was used. In the diagram, line (a) represents the reported trend in average estimated time for completion. Line (c) represents what the trend would have been if execution time had not shortened at all. Line (b) represents the average of (a) and (c). Line (d) is a base line to which lines (a), (b), and (c) are compared. Lines (a) and (c) represent two possible extremes and it appears likely that a more accurate estimate would lie somewhere between them. It was arbitrarily assumed that a reasonable estimate would lie half way between these two extremes. Thus line (b) represents the estimated trend of decreasing execution time.

Individual project estimates of the remaining time required for execution were then modified proportionately. When these modified estimates were incorporated the average execution time increased sharply to 8.5 years.

Research Note Number Four: Mathematical Model of Real Estate Investment — The General Case

In the following mathematical model, it will be first assumed that the private redeveloper's equity investment occurs at one point in time, and that he is successful in getting all projects that he submits a bid on. Later these restrictions will be relaxed, and the probable effects on profits examined. After the mathematical model is developed, estimates of the quantitative range of each parameter of the model will be made. These quantitative estimates will be substituted into the model to determine possible rates of return to the private

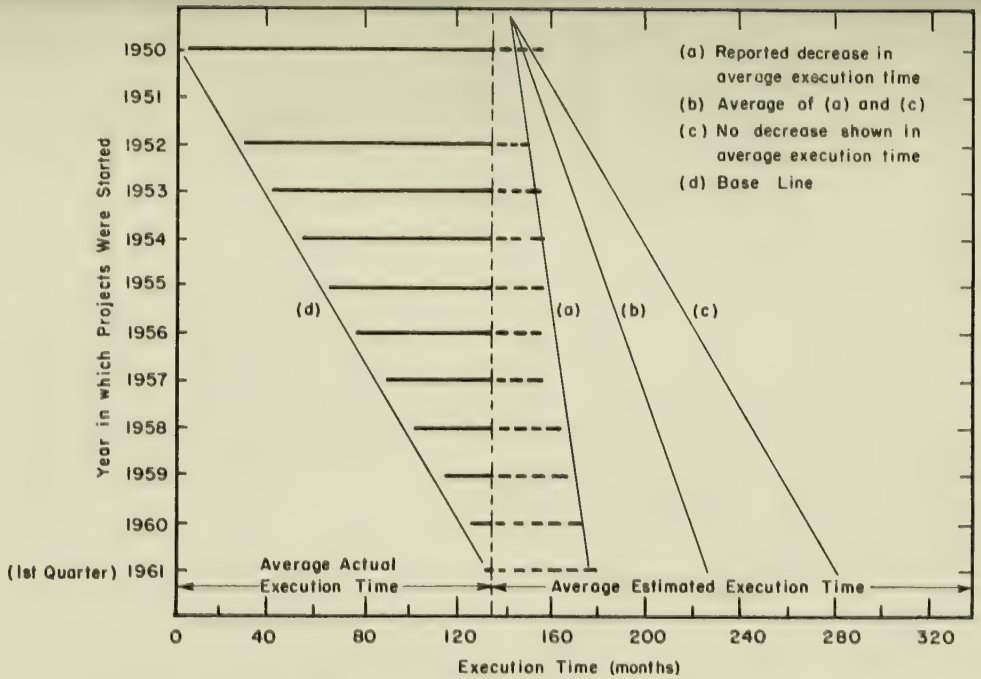


FIGURE B.1 *Diagram showing relationship of actual to estimated execution times and a technique for re-evaluating the estimated execution times.*

SOURCE: Physical Progress Quarterly Reports (unpublished), Housing and Home Finance Agency, Urban Renewal Administration, Washington 25, D. C.; 423 projects reporting.

developer under the the least favorable conditions, the most favorable conditions, and the most likely conditions.

In the model the following symbolic notations will be used:

t = some time period, say a year
r = occupancy rate
G = gross project cost
I_t^r = total gross rental income during period t with occupancy rate r
E_t = operating expenses and real estate tax payments during period t
i = interest rate per period including insurance premium
C_t = amortization rate during period t
n = periodic growth rate of C_t
P_t = amount of principal outstanding at end of period t
F_t = net cash flow during period t
P_M = the per cent that gross rental income is of the initial mortgage amount
P_E = the per cent that operating expenses and tax payments are of effective gross rental income. (As defined by FHA, effective gross rental income is computed by assuming a constant 93 per cent occupancy rate.)
e = natural logarithm
K = constant
V_t = depreciable value of project at beginning of period t
D_t = depreciation during period t

The net annual cash flow to the developer is equal to the gross rental income less operating expenses, tax payments, interest payments, and principal payments. The net annual cash flow before income tax F_t can be symbolically represented as

$$I_t^r - E_t - iP_{t-1} - C_tP_o \tag{1}$$

From our previous definitions it follows that

$$I_t^r = rP_MP_o \tag{2}$$

$$E_t = I_t^{0.93}P_E = (0.93)P_MP_oP_E \tag{3}$$

$$C_t = C_oe^{nt} \tag{4}$$

where C_o is the original amortization rate. Substituting values from Equations (2), (3), and (4) into Equation (1) gives the following:

$$F_t = rP_MP_o - (0.93)P_MP_oP_e - iP_{t-1} - C_oe^{nt}P_o \qquad (5)$$

or

Net Cash Flow = gross rental income
less
operating expenses and real estate tax payments
less
mortgage payments

The amount of interest paid each year will decline as the principal outstanding decreases, and the amount of amortization will increase each year at some specified rate n. To simplify the analysis, it will be assumed that the sum of the interest payment and the amortization payment will remain constant for each year. Thus,

$$iP_{t-1} + C_tP_o = iP_o(i + C_o) = K \text{ (constant)} \qquad (6)$$

Substituting this constant K into Equation (5) results in

$$F_t = P_o[rP_M - (0.93)P_MP_E - i - C_o] \qquad (7)$$

Substitution of Quantitative Estimates. The preceding symbolic model can be made quantitative by substituting quantitative values for the parameters. The individual parameters are subject to a considerable degree of variation. For this reason it was feasible to estimate only the approximate range of each parameter. The interest rate i is a function of market conditions, and the amortization rate C_o is determined by the Federal Housing Administration. The occupancy rate r will vary greatly from project to project, especially in the early years. The estimate used below is for the long run, and does not take account of very low occupancy rates during the initial renting period. The relationships of the amount of the mortgage to gross rental income and gross rental income to operating expenses are symbolically represented by P_M and P_E.[1] A summary of the parameters of the model and their estimated range of variation is given in Table B.2.

To determine the most likely cash flow before income tax, the estimated average value of the parameters were substituted into Equation 7. The most likely cash flow was $0.0104P_o$. Because the initial amount of the mortgage P_o is usually 90 per cent of the cost of the project G, the most likely cash flow can also be expressed as $0.0094G$. In more general terms, the most likely net annual cash flow

before income tax is approximately 1 per cent of the cost of the project.

The next step was to determine reasonable limits of the net annual cash flow. Under the least favorable conditions when the parameters i, C_o, P_M, and P_E are highest and r is lowest, the net annual cash flow is negative. The net annual loss under these conditions is approximately 0.0043G. If, on the other hand, r is at its highest value and the rest of the parameters are at their lowest value, then the net annual cash flow could be as high as 0.0243G.

TABLE B.2

ESTIMATED QUANTITATIVE VALUES OF PARAMETERS

Parameter	*Estimated Percentage Range of Value*	*Estimated Average Percentage Value*
r	93% to 100%	96.50%
i	5.5% to 6.0%	5.75%
C_o	1.0% to 1.5%	1.25%
P_M	13% to 15%	14.00%
P_E	40% to 44%	42.00%

Thus for a one million dollar project, the most likely net annual cash flow before income tax is about $9,400. It could range as high as $24,300 or as low as a net annual loss of $4,300.

EFFECT OF DEPRECIATION. Depreciation is an important consideration to the private developer because of the effect it has on his net income *after* taxes.

In the following analysis it is assumed that the building itself accounts for 75 per cent of the project cost and has a 40-year life. The equipment in the building accounts for the remaining 25 per cent and has a 25-year life. Using the double declining balance method, the annual depreciation rate will be 5 per cent for the building and 8 per cent for the equipment. Now let V_t stand for the book value of the building and equipment at the beginning of period t, and let D_t stand for the amount of depreciation that can be charged as an expense for tax purposes during period t. This results in the following relationship:

$$D_t = (0.05)(0.75)V_t + (0.08)(0.25)V_t = 0.0575V_t \qquad (8)$$

NET TAXABLE INCOME. The amount of income that is taxable is computed by adding the reserve for replacement R_t and the amortization payment C_t to net cash flow F_t and then subtracting the depreciation expense D_t. In the following analysis it will be assumed that

$$R_t = 0.002P_o$$

Let NI_t represent net taxable income and, accounting for depreciation, we get

$$NI_t = F_t + P_t + C_t - D_t \tag{9}$$

Substituting, we get

$$NI_t = P_o(C_o e^{nt} - C_o + rP_M - 0.93P_E P_M - i - 0.002) - 0.0575V_t \tag{10}$$

Substituting the quantitative estimates of the average value of the parameters in Equation (10) results in

$$NI_t = (0.0125e^{0.02t} + 0.008)P_o - (0.0575)V_t \tag{11}$$

Equation (11) estimates the amount of the redeveloper's income that is taxable. If the second part of Equation (11) is larger than the first part, NI_t becomes negative, indicating that all income from the project is tax free. If NI_t is negative, an amount equal to NI_t is available as excess depreciation and may be applied to taxable income from other sources.

During the early years of the project, the depreciation component $(0.0575)V_t$ will be large enough to make the net taxable income NI_t negative. For example, during the first year,

$$NI_1 = (0.0208)P_o - (0.0575)P_o = -(0.0367)P_o \tag{12}$$

The excess amount of depreciation is $0.0367P_o$, which is approximately 1.75 times as much as the taxable income before depreciation is accounted for. This means that the entire cash flow from the project is tax free.

EFFECT ON TAXABLE INCOME FROM OTHER SOURCES. The net effect on taxable income from other sources will depend on the marginal tax rate bracket of the investor. If we call the marginal tax rate α, the net effect will be

$$\alpha \text{ (excess depreciation)}$$

Letting β_t equal the ratio of excess depreciation to net cash flow F_t the benefit accruing to the redeveloper is

$$F_t + \alpha\beta_t F_t \quad \text{or} \quad F_t(\alpha\beta_t + 1) \tag{13}$$

In other words, it is possible that a large percentage of the net gain to the redeveloper would come from tax advantages caused by depreciation. Of course, β_t decreases each year, and therefore the annual net gain to the redeveloper would decrease. The greatest portion of the benefits from excess depreciation accrue to the redeveloper early in the project.

Rates of return. Because of the relatively small amount of equity involved, the before-tax rate of return on these projects is very sensitive to minor percentage changes in the various cost and revenue components of the model. Consequently, there is a very wide range of possibilities in the rate of return. To arrive at an approximate rate of return, the net annual cash flow is divided by the redeveloper's investment. A matrix showing the rate-of-return possibilities is given below in Table B.3. From an examination of this

Table B.3

MATRIX SHOWING POSSIBLE RATES OF RETURN AS A FUNCTION OF REDEVELOPERS' EQUITY INVESTMENT

	Redevelopers' Equity Investment			
	3%	*4%*	*5%*	*6%*
Least Favorable Conditions	Loss	Loss	Loss	Loss
Most Likely Conditions	33.5%	26.0%	20.8%	17.3%
Most Favorable Conditions	86.1%	66.7%	53.4%	44.5%

matrix it is estimated that the redeveloper's rate of return after taxes will probably range from 20 to 25 per cent.

Appendix B Notes

[1] The parameters P_M and P_E were estimated by averaging values taken from two actual projects and three case examples of projects. These values are shown below:

Estimates of Project Model Parameters

	Value of Parameters					
Parameter	*Project No. 1**	*Project No. 2**	*Example No. 1†*	*Example No. 2†*	*Example No. 3†*	*Average*
P_M	14.62%	13.47%	14.35%	14.02%	14.31%	14.35%
P_E	40.06%	42.53%	43.40%	42.56%	37.61%	41.23%

* Project No. 1: Park West, Section 4, Southeast Corner of Columbus and West 100th Street, New York City; Project No. 2: Charles River Park, West End, Boston, Massachusetts.

† Case Example No. 1: Marvin S. Gilman, "Entrepreneurial Considerations in Residential Redevelopment," Guest lecture delivered at a graduate seminar in "Economics of Real Estate," conducted by Professor Charles Abrams, Department of City Planning, M.I.T., October 20, 1961; Case Example No. 2: Mr. Seymour Baskin, "Tax Considerations of Private Developers in Urban Renewal," *A Report of the Proceedings of the 6th Annual NAHRO Conference on Urban Renewal*, April 16–18, 1961; Case Example No. 3: "Housing Developers Vie for Jobs of Clearing Slums," *Business Week*, February 22, 1958, p. 80.

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